NATIONALISATIONS IN INDIA
(1947 - 1980)
A STUDY IN POLICY OPTIONS

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Contents

Preface

The study was aimed at generating a temporal, sectoral, industry-wise and methods-wise profile of nationalisations in India during the period 1947-1980. Another objective was to explain the factors which led to the decision to go in for nationalisation. On the basis of the examination of the micro, sectoral and macro factors alongwith their interactions, it was also our purpose to relate the policy of nationalisation to the strategy of development.

A large number of official documents, reports, unpublished and published material were examined with a view to generate the profile of nationalisation. On the basis of the development of the industry or sector in question and interaction of its growth with various governmental controls, regulations and promotional measures, it was attempted to see why the conventional methods of control and regulation turned out to inadequate or disfunctional, necessitating a recourse to nationalisation.

On the basis of the relationship of a particular industry with the national economy and development planning, it was also attempted to see if the objectives sought to be achieved from an industry underwent a qualitative change or were enlarged in order to necessitate and/or justify nationalisation. Macro, sectoral and

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micro level data, official documents, Parliamentary debates, reports prepared by major interest groups and debates in the literature on the subject were studied in order to analyse the decision to nationalise. The laws under which nationalisations took place were also analysed for purposes of determining the contents and terms and conditions of various nationalisation measures.

We also wanted to study the relative importance of nationalisation as a policy instrument in an aggregate sense over the period as a whole and during specific sub-periods, as also to explain the use of this policy instrument in its totality over various sub-periods. However, we could not attempt this task. Without making a comprehensive study of the totality of public policies directed towards a number of goals whose hierarchical ordering was not explicit in the context of overall, national planning, it appeared to me that the relative role and an explanation of the use of nationalisation could not be attempted. This is largely because of the fact that as far as I am aware comprehensive studies of State participation and interventions which cover the use of all the policy instruments, their relative roles (complementary and as substitutes) in their totality and as a part of the strategy of

development and as related to the nature of the State, changing balance of class and other alignments and in the international context are not available. Until more definitive and complete studies emerge on these issues, a macro-level explanation of the totality of the phenomenon of nationalisation during the period of our study viz, 1947-1980, it seems to me, will have to remain on the agenda for future research.

Such studies of nationalisations are undoubtedly significant. Even on the basis of our study it clearly emerges that the Indian planning and development exercises were not based on the use of nationalisation for an initial levelling down in order to mobilise the potential surplus (a la Paul Baran) which remained unused for development. This was largely owing to the institutional set-up favouring existing and further concentration of resources in the hands of a small minority in industry, trade and agriculture. As a result, our development strategy could not attack the problems of poverty, unemployment and inequities directly by making the dispossessed masses both the agents and beneficiaries of development simultaneously.

It was because the apex of the social pyramid was not lopped off that the social and economic power could not percolate down to the middle and the

lower strata consisting of the vast majority of our people. That is why the theory of the intermediate regime remains largely inapplicable to India, contrary to many protestations to the contrary and as admitted by some of the proponents of the 'theory', like, e.g., Ignacy Sachs (see his 'Politics in the Third World : Similarities and Differences." in The Discovery of the Third World, Cambridge, Masachusetts, MIT, Press, 1976).

It is our contention that the estimate of the overall size of nationalisation effort in the Indian economy, its nature, context, terms and conditions and an analysis of the factors which contributed towards it (that is what has been attempted in the present study) shou help in the understanding of some critical aspects of the Indian development strategy in its operational aspects and in the characterisation of the Indian State.

The study covers a large number of industries of which either partial or full nationalisation was attempted. It is not possible in a short space to list the major findings, particularly with respect to each industry or sector, let alone, to compare and contrast them in order to delineate some specific patterns. However, the findings common to most of the nationalisations are the following :

1. Nationalisation has not been considered a part of the normal arsenal of policies and recourse to it has only been in view of some special and powerful factors.

2. General policy under the development strategy has not been to restructure the ownership pattern of industries and organised services. In view of this, whenever nationalisation was attempted, it was done because it became inevitable or inescapable. Generally speaking the other policy instruments (as they are being practiced and not in any ideal manner) were exhausted prior to going in for nationalisation.

3. A great deal of flexibility in the use of the policy instrument of nationalisation was displayed, particularly, with respect to the choice of the sectors, number of units, form of take over, subsequent organisational form, size and mode of payment of compensation, etc. Though we have not had the experience in India at the Central level of privatisation or de-nationalisation so far and openly, however, these also are among the choices available.

to the policy makers.

4. The policy instrument of nationalisation in a capitalist economy is made use of mainly because it can be co-opted and made consistent with the general nature and dominant interests of a market economy. Given the nature of the state, nationalisation by itself does not become, at least in the short run, an anti-capitalist, let alone anti-monopolistic measure. In fact, it may help smoothen the functioning of a capitalist economy, particularly by facilitating re-organisation of capital on the basis of the law of average rate of profit in so far as it is operative in the Indian economy. This is, however, not to deny the adverse impact of nationalisation on a specific group of capitalists whose industries or units are taken over, or to undermine its immediate and long-term so cio-economic significance.

All the finding can be interpreted to yield specific policy recommendations to any society trying to make use of policy instrument of nationalisation in a capitalist

economy. A large number of other hypotheses, which are examined in the present study, are contained in the chapter on the theoretical and conceptual aspects of nationalisation.

The study benefitted immensely by the work of Shri Pranab Banerjee, Shri Durga Prasad Pal, Miss Malabika Patnaik, Shri M.R. Murty and Shri J. Sharma who work on the project at one stage or the other. I express my thanks and gratitude to them all and particularly to Shri Pranab Banerjee and Shri Durga Prasad Pal for their insightful, sustained and sincere help.

I have had the benefit of discussions with many colleagues and friends and persons working in many public sector organisations and government departments. The latter group was also very helpful in providing a good deal of information and statistics. I take this opportunity for thanking them all, though unfortunately for reasons of space, I refrain from mentioning their names. Dr. P.R. Dubhashi, Director, I.I.P.A, and Shri T.N. Chaturvedi, the former Director of the I.I.P.A., provided all the help and encouragment for carrying out the study. I wish to express my

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Nationalisation: Some conceptual and Theoretical Issues.

Nationalisation is a notable landmark in the evolution of state interventions in the economy and in the sphere of public policies. It is one of the relatively newer policy instruments which appeared on the scene in the early parts of the twentieth century, though as a concept it goes far back into the past.

The institutions of the state and property have very close and ancient links. In fact, it may be postulated that without the state playing an important role, property could not have emerged as a legal and economic category, embodying many an important social relations. Similarly the evolution of the state is closely connected with the evolution of the social institution of property in various forms. However, it is only at a relatively advanced stage of the development of capitalism that nationalisation appeared on the economic scene and in the constitutions and laws of many countries.

In part I a broad historical account of the experience with nationalisation in different situations and contexts is presented. In part II we move on to discuss some important elements and categories which constitute nationalisation. In particular, we discuss the concept of

property and its social dimensions and various forms like private, private property, state property, social property etc. and the legal processes, public policies and the nature of state power connected with nationalisation. On the basis of the discussion sofar, in part III, we attempt a precise formulation of the definition of nationalisation. Various features of nationalisation are brought out in the next part (IV) by means of distinguishing it from statisation, expropriation, confiscation and socialisation. In the process of distinguishing socialisation from nationalisation, we also bring out the differences between socialist and capitalist nationalisations. Then we move on, in the next part (V), to bring out some special features of capitalist nationalisation.

I

It has been claimed that it was in 1917 that nationalisation made its first legal and constitutional appearance(1) (as distinct from expropriation of the traditional type, or the instances of confiscation with which history is replete)(2). This is not to suggest that the idea of doing away with private property or its collectivisation in some form is equally new. As Katzaror demonstrates, "It would be no less mistaken

to think that the idea of nationalisation, and the economic and social principles which it embodies are the work of one single person, one trend of thought, or even one single epoch. Even in antiquity, Plato and Aristotle had traced the contours of collective property. The institution of the American Incas, in a comparatively recent past, led them to apply it simultaneously. Saint Simon, Fourrier and Owen made it an economic principle; Kant, Fischte and Hegel gave it a philosophical basis; Marx and Engels erected it into a scientifically supported social and political principle. Even the Roman Catholic Chruch was eventually prepared to recognise it".(3)

Thus from Plato to Marx, from Utopian socialism and crude communism to scientific socialism, from electic pragmatism to ecclesiastic dogma, the ideas concerning limitation, curbing and abolition of private property and its replacement by social, collective, public or state ownership have been widespread, though provoking extreme reactions of total adulation or outright rejection.(4)

Thus, at one level, nationalisation has been derived from, or related to important socio-economic, political and philosophical principles. At another level, it has

been a form of state intervention which changes ownership and control of the material means of production from privat to public with a view to achieve either some general or some specific stated or unstated objectives. In this process, it changes or contributes to changes in the net-work of socio-economic relations mediated by property. Just as in the realm of ideas and principles, nationalisation has acquired a diversity of connotations, in the sphere of practical applications, nationalisation has assumed numerous forms in many different contexts. All real life cases of recourse to nationalisation have had their inevitable linkages with, or origins in various socio-economic schools of thought; of course, with varying degrees of directness and proximity.//The main common element in all these theoritical bases has been a recognition of the limitations and shortcomings of private property and the need for its replacement by some form of public ownership.(5) Even then the actual historical circumstances of the economy, its level of development of productive forces, the legal and constitutional framework of the economy, and inter-connections of the privately-owned means of production in different branches of the economy, past experience of state's participation in the economic

sphere, etc. exercise considerable influence on the concrete forms of nationalisation. The diversity of historical experience with nationalisation inevitably casts its shadow over the concept of nationalisation. In order to analyse the conceptual questions relating to nationalisation, it becomes, therefore, expedient to devote some attention to the experiences with nationalisation which have accumulated since its inception towards 1917. This is essential because systematisation of concepts through precise definitions becomes possible after the phenomenon to be represented by it has acquired definite shape in concrete, historical reality.

It is a formidable task to try to capture the diversity of forms and circumstances in which nationalisation have been attempted in different countries. However, following Katzarov, one may refer to "three chronological stages"(6) through which nationalisation has passed,(7) (a) before 1917 there were only incidental nationalisation and from technical point of view "took the form of expropriation in the public interest".(8) (b) sporadic nationalisation of the inter-war years, without yet acquiring a definite character as it was a response to postwar crises, except in the USSR which abolished private ownership of land and means of production by means of nationalisation. (c) Post-Second war nationalisations which "appear as part of a determined system,"(9) when it experienced

tremendous geographical expansion and was extended to both socialist and liberal countries. It became a definite constitutional, economic and legal institution.

After the Second World War, nationalisation crossed the boundaries of Europe and Latin America and travelled to many Asian and Aftican countries, particularly in the form of take-over of foreign-owned means of production as well as in order to form a part of the state-sponsored process of 'development'.(10) The process of nationalisation has also reached a stage in some of the liberal countries at which a slide-back into denationalisation or re-privatisation has also been witnessed.(11)

Attempts at defining nationalisation are likely to be helped if various systems or forms of nationalisation experienced so far are examined. Again, following Katzarov,(12) four forms or systems of nationalisation may be noted.

First, we have Latin American and other Third World nationalisations following political independence of the countries of this region which were chiefly directed at foreign capital, particularly in the sphere of public utilities and control over natural resources. It also appeared "as a means of socialising economic life in general"(13) and was based on a recongition of the social functions of property. However, none of these nationalisations went to the extent of abolishing private property as such.

Second is the Soviet system of nationalisation which in its application of radical and rigorous socialist principles led to complete transformation of property and reduced private property to the rank of 'personal property' and gave birth to socialised/statised property, to be directed by national economic plan. This is also called nationalisation of the entire economy, the other side of the abolition of private property in the material means of production, as distinguished from nationalisation of an enterprise or a group of enterprises or an entire branch of the economy.[14]

Third, the systems of nationalisation in the Eastern Europe is a somewhat weaker version of the Soviet system of nationalisation. These nationalisations are evolutionary in so far as severe restrictions have been placed on private property and private enterprise but without their abolition. These features are based on the specific needs and historical experience of these countries which "have largely determined the a priori unfavourable attitude adopted to large scale ownership, especially of land, and to capitalist methods"[15] in Eastern Europe. Both the Soviet and East European nationalisation may be termed socialist nationalisation.

And then we have the nationalisation experience of Western Europe which introduced it "without thereby modifying - or at least avowedly modifying - the traditional content of property, and without imposing any appreciable restrictions on private enterprise."(16) Great Britain, France and Italy were the main countries which took recourse to this kind of nationalisation. In Great Britain, these nationalisation owed to the ideology of the labour party as well, as embodied in clause IV of its constituion.(17) By and a large, the objective of these nationalisations was to use property organised as enterprises in the general social interest in a given situation when no other effective means of serving some general ends seemed to be available.(18) These nationalisations(19) - fairly substantial in magnitude in certain instances covered either specific enterprises or certain specific branches of industry or other economic activities. In this sense they were vastly different from the nationalisation of all the material means of production. These cases bring out that "the coexistence of nationalisation with private enterprise and ownership is not only conceivable and desirable, but can readily be adapted to the environmental conditions."(20) In other

words, these capitalist countries could make use of the policy of nationalisation of specific private enterprises owing to the posibility of its co-existence with and co-option into a capitalist economy. It is also maintained that often it is the capital-intensive, least profitable industries or branches of the economy which as a rule had obsolete equipment which were nationalised in Western Europe. British coal industry is a prime example of such take-overs.(21) Our analysis shows that nationalisations in India during the period 1947 to 1980 find their closest cousins in the nationalisations seen in Western Europe. This category of nationalisation may be termed 'capitalist nationalisation'.

What emerges from the foregoing very broad sweep account of major forms of nationalisations witnessed so far in different countries, in different contexts and during different periods is, for one thing, its flexibility and adaptability. What also emerges is a definite and unambigious transformation by means of nationalisation, from private property and enterprise into public or state ownership of the material means of prodiction which is either on an entire economy wide scale (socialist nationalisation) or is confined to productive property organised as a specific enterprise, (capitalist single unit nationalisation) or group of enterprises covering a part or the whole of a sector or branch of the economy

(capitalist sectoral or industry wide nationalisation). However, nationalisation did not apply to specific, isolated pieces or property, without covering an enterprise as a unit. It also comes out that this transformation is not irreversible, as witnessed in the phenomenon of denationalisation or reprivatisation.(22) It can further be seen that nationalisation of the Soviet or Eastern European variety is qualitatively different from the Western European or most of the Third World Nationalisations.(23) These basic differences relate to the sweep and range of nationalisation, their ideological underpinnings, their relation with the organisational forms and economic mechanism, their treatment of the instituions of private property and enterprise, payment of compensation,(24) technical and legal form in which nationalisation was carried out, degree and extent of irreversibility, impact on the class character of the State, etc. Notwithstanding the differences, one also observes some common elements like, a partial or extensive ending of private property and enterprise, legal and/or constitutional basis of nationalisation, social functions of property as a basis for take-over of private enterprises, enhanced role of non-private methods of management of the economy, use of nationalisation in order to overcome the limitations of other instruments of economic policy, etc.

II

Most studies on nationalisations attempt a definition of nationalisation. Many also evolve a scheme for classification of different types of nationalisations. These exercises are useful for facilitating both theoretical and empirical studies on nationalisation. However, many writings on socialism, capitalism, economic policy and transition of modes of production too attempt either a definition or discuss some analytical and conceptual aspects of the term nationalisation. These discussions are not a matter of semantics or terminological precision alone. They touch upon many substantive issues concerning the concept and evolution of different types of property, its content in legal and social spheres, relationship between capitalist mode of production and private enterprise; nature and functions of the state, particularly in relation to various types of property and links between property ownership and classes; relations between nationalisation, socialism, nature of planning and the nature of the state under socialism or/and character and scope of various types of policy instruments and variables under different sets of circumstances. Thus a discussion

on the nature and meaning of nationalisation goes beyond its immediate tasks; it clarifies many inter-related issues and provides a framework in which different types of nationalisations can be studied. Furthermore, a discussion on the conceptual aspects of nationalisation clarifies some issues regarding the character and role of the state under capitalism and socialism and its relationship with economic policy.

It is not our intention to attempt a comprehensive survey of writings on the conceptual and definitional aspects of nationalisation. The limited exercise which is being attempted is to identify the main elements which go to constitute the policy instrument of nationalisation and to bring out their inter-connections.

The most significant elements of the concept of nationalisation is a rather strong and direct entry of the state into the economy, either with respect to the entire economy (socialist nationalisation) or a group of production units or a single production unit (capitalist nationalisation). At times, this element of nationalisation has been emphasised to such an extent as to make it synonymous with the functioning of the state outside its traditional functions.(25)

According to this apparently too wide and non-specific concept of nationalisation, every society, including the pre-capitalist ones, can be said to have tried nationalisation. While it is true that nationalisation entrusts to the state activities beyond "the more traditional functions of repression, administration and the provision of services", (26) it does much more than that and in a very specific way.

In order to capture the *differentia specifica* of nationalisation, it becomes essential to treat it as a specific method of conversion of private property into public, collective or state property in a specific context and for a given set of purposes. In its most popular and direct meaning, nationalisation is taken to involve "alteration or termination of control or ownership of private property by the state". (27) As Engels maintained, nationalisation "transforms the means of production in the first instance into state property." (28) While the transformation of private property into public or state property is unquestionably a critical element in any nationalisation, (29) one wonders if this element alone can define the phenomenon of nationalisation. Perhaps such a view is implied by Tinbergen, when he says "Nationalisation is usually

taken to mean the handing over to a country's governments of the ownership of an enterprise or an industry's capital or its assets."(30)

This kind of a definition seems to be somewhat simplistic. It does not seem to caputre the wide range of implications of decision to nationalise in their instinsic depth. There are also significant questions concerning the context in which acts of nationalisation are carried out. A definition which provides not just the literal meaning of the term but explicates it as a concept in a theoretical framework and an analytical paradigm will have to go beyond treating nationalisation as a mere transfer of productive assets or enterprises from private to public domain.

It it is taken just as a transfer of assets, enterprises, or even entire industry or even all the industries from private ownership to that of government or public agencies, that carries just a formal, legal flavour; and remains silent on the content, context, basis and methodology of an important policy instrument which heralds an important institutional change. So much so that certain forms of nationalistion are considered

a pre-condition for socialist transformation,[31] while others appear in a systematic manner as parts of the policy framework at a certain stage of development of capitalism. Thus it becomes essential to arrive at a conceptual formulation which is equal to the task of portraying the substance of nationalisation as a means of transforming property relations. Specifying the task of defining nationalisation in a theoretical framework is based on the understanding which holds that "the most important and visible success yet achieved in the attempt to achieve the social, economic and political principles relating to property is to be found in the institution of nationalisation".[32]

A starting point for bringing out a formulation which captures the essence of nationalisation is provided by the concept of property in general and private property in particular.[33] This is because nationalisation is a limitation or eliminations, in part, or full, of the institution of private property.[34] An explication of what is it which has been curbed or curtailed by nationalisation may enable one to understand that which replaces it and the nature of the transfer or transformation involved.

Property is a relationship between men and certain objects whether they be means of directly satisfying human wants or means of production. Property is no more possession, it is control over objects which carries with it the sanction and authority of law and society.(35) And yet it is much more than a legal entity or institutuion, "it is possession which is recongnised by members of society, which is protected by generally respected social standards in the shape of laws and customs, and which is guarded by the existence of sanctions aganist the violation of these social rules."(36)

It is clear that ownership or the social institution of property,(37) relates, among other things and predominantly, to means of production. In the process of production, there emerges a network of social production relations in which things, material objects, constitute "a binding social link between men".(38) Thus ownership of the means of production represents social relations mediated by the physical objects acting as means of production.

Production relations and ownership of means of production i.e., property relations, are linked in a two-way relationship. In the process of man's acting on nature, i.e., in the labour process which is "an exchange between man and nature" a member of human relations in society are formed. In the emergence of social production relations, ownership of the means of production plays an important part. "It is the ownership of the means of

production which decides the ways in which they are used and which thereby determines the forms taken by co-operation and division of labour. Moreover, ownership of the means of production determines the issue of who owns the products, and hence decides how they are distributed". (39) Thus property relations exert a great deal of influence on production relations.

On the other hand, the production relations also exercise significant influence on the ownership of the means of production. The production relations determine the relations of distribution which go to influence the ownership of the means of production. Thus ownership of means of production influences and is, in turn, influenced by production relations via its links with the productive forces.

Thus property ownership patterns are an important socio-economic institutions. Often, property is taken as a legal institution and its social aspects are neglected. For instance, private property is defined as exclusive, and absolute control of the owner over the objects owned which is not limited in time. (40) This view fails to see property as a tripartite relation between means of production, their owners and society. (41)

The connotation of the concept of nationalisation is influenced by the connotation ascribed to the concept of property. As property represents a set of social relations and is intimately connected with production relations and influences their operation and change, so does nationalisation. Thus nationalisation is not a mere juridical category but has important social, economic and political aspects. On the basis of the scope, methodology and areas chosen for nationalisation, its social, political and economic dimensions can be determined.

This is not to underplay the legal basis of the nationalisation in a specific piece of legislation or in accordance with the provisions of the constitution. In some cases the constitution itself brings about nationalisation of certain industries and sectors.(42)

Since property represents social relations, particularly production relations in a given society at a particular historical juncture, nationalisation is not just a transfer of a bundle of assets or titles over them to a public/collective agency. In this sense, nationalisation is different from 'eminent domain' which is the right of government to take-over property for particular public purposes, such as building of public utilities and socio-economic infrastructure.(43)

By its very nature, it represents a de-privatisation of certain activities, certain labour processes. Organisation, motives, methods of management, distribution of the products etc. are materially affected by ownership and control over production.

Some Fabian socialists, on the contrary, tend to hold that the large corporations, whether publicly or privately owned, confront problems which are essentially similar and that it acts essentially the same way in dealing with them. Thus they tend to underplay the value of steps like ntionalisation which convert the corporations from private into public ones.(45) What seems to be happening is that such arguments tend to ignore the nature of state power, distribution of social power and the objectives of the ruling classes, and take a technocratically determined view of the objectives of collective ownership. Hence, on the one hand, they tend to ignore the potential inherent in a step like nationalisation, and on the other, harbour disillusionment over its performance.

By transfering ownership from private hands to state agencies, a certain degree of socialisation of production sphere comes about. It is in this sense that Katzarov speaks of "socialisation of labour in its widest sense" and "conversion of a private economic activity into a

social and collective activity"[46] which is brought about by means of nationalisatin. It is on account of the implications of nationalisation for the production process that it is considered not just a transfer to but transformation into collective ownership i.e., a qualitative change.[47]

Since nationalisation is a transformation of private porperty and enterprise into public, collective ownership and enterprise, it becomes apparent that there takes place the public acquision not just of private property or assets but of private enterprises which are themselves legal, economic, entities. It means it is the means of production and exchange organised as enterprises which are taken over by the state.

It has been suggested that while private property organised as an enterprise can be nationalised, "intangible attributes of an individual or corporation, such as a trading devise or name"[48] cannot be nationalised. This seems to be a restriction of the scope of nationalisation which has no basis in either theory or fact. Intangibles include patents, goodwill, brandnames, etc. and represent property and along with enterprises they too are taken over. Specific provisions are made in the nationalisation law to pay compensation for

covering the transfer of the intangibles.

Though nationalisation is much more than a legal enactment, it is not based on mere executive or administrative decisions. "Hence it is usually authorised by constitutional provisions or organic laws formulated in broad terms" (49) or "it is for the ordinary legislature to decide upon and effect nationalisation". (51) However, when an ordinary law is enacted for bringing about nationalisation, it is not based on an administrative decision but the decision is "situated at the highest political level". (51) Thus nationalisation is an impersonal, legal act with political sanction; infact, it is a matter of public policy.

Thus nationalisation has to be seen as a change in the relationship between a private firm and the state. The state and the private enterprise are always interrelated though the nature and form of the relationship varies according to a number of factors." "The 'corporation' was initially a political as much as an economic body, from the mediaeval to the mercantile period in Europe: an association of persons linked by a common purpose and status in an instituion through which they regulated themselves and their relations to the rest of feudal society". (52) It may be maintained that the firms or corporations during late feudalism

were, in effect, proto-firms in the sense that they were not capitalist private enterprises as individual units of capital established for organisation of material production. Even the mercantile firms which worked on the basis of a charter from the state and thus acquired a part of the state sovereignty, were not industrial capitalist firms. This is because they were not "a framework for the organisation of the exploitation of labour by capital".(53) As the capitalist industrial firms represent a set of economic relations separated from politics in which the state initially upholds the principles of private property and freedom of contract, and later on intervenes in many other forms, the state is not directly involved with the private firm except ensuring in a general way, the reproduction of the social relations of capitalism. Even when a little more direct intervention of the state becomes essential in the economy, particularly with respect to the management of two special commodities in a capitalist economy, viz., labour and money,(54) it avoided "the intrusion of politics into the direct process of production".(55) This separation of the economic sphere from the political, is established by the particular form of the capitalist state as a form of power apparently separated from society and hence apparently neutral.

It means that the state "has to appear as a public

institution (differentiated from the sphere of the private), able to establish general rules (applicable to everyone) and to take executive decisions" (56) i.e. "an impersonal apparatus of power" (57) In this way it distances itself from its class-base as well as the economic sphere and the firms. (58) Thus the firm and the state under capitalism appear as belonging to two separate spheres, despite their close and varying degrees of inter-dependence.

Even when the state nationalises a private enterprise, the apparently separate, neutral, distanced form of the capitalist state comes handy; for one thing, it permits the state to enter direct production by replacing private capital (organised as a firm or a group of firms) by state capital, though it maintains the state as basically a non-economic institution.

Thus nationalisation which brings a state capitalist sector consisting of state capitalist firms into existence adapts state institutions to the newer needs and forms of capitalism. And yet the nationalised or state firm does not form a part of the state structure itself; it may be described, in contrast to capitalist private property (individual, family or corporate of jointproperty, (59) corporate private enterprises, as capitalist state property. In other words, the nationalised undertakings are state-woned and state-controlled, but they donot

constitute the state. A possible source of confusion in this respect arises when a firm taken-over by the state is made a part of a department of the government. Though generally departmentalisation of nationalised firms is avoided, when it comes about, it becomes in some ways identified with the state. In this case, nationalisation becomes statisation.[60]

It is on account of such a form of the capitalist state that an important distinction is often made between nationalisation and what is called in French 'etatisation', a term which can broadly be translated as 'statisation'.[61] The capitalist state distances itself from the economy and is seen to formally and legally represent the community and in this capacity becomes responsible for the nationalised private property and enterprise. As Katzarov puts it, "The impression is retained that if the means of production could be transferred to the community and utilised in the general interest in some other way excluding state intervention, this would be in no way incompatible with the idea of nationalisation."[62] The character of the nationalised firm as under state-ownership and control and yet a legal personality distinct from that of the state is sustained by a distinction in the legal standing of the

nationalised enterprise which is "placed under the system of civil law, especially the law of contract" and the government which falls within the purview of administrative law.(63) Thus nationalisation does not become identical with statisation.

Since nationalisation changes the ownership of the means of production organised as firms or enterprises, it is change in the legal sphere (a juridical change which belongs to the superstructure). Moreover, since the change in property relations brought about by nationalisation concerns production units or firms which are in a capitalist economy the method of organising capital for controlling the labour process or, since property in the means of production performs many social functions, it marks a change in social production relations. In this sense, it is a change in the economic base of society. Property or ownership relations are a juridicial category as well as a component of the social production relations and thus belong to both the base and the supersturcture of society. Nationalisation, similarly, belongs to both the spheres.

As a policy instrument, nationalisation immediately brings about a **juridical**, superstructural change. But production relations cannot change so immediately and

[redacted]

are dependent on a large number of factors like the nature of the state, methods of planning and management, relationship of the taken-over enterprise with the rest of the economy, etc. Private property in the means of production is the basis for exploitation of wage-labour in the sense that the product of labour belongs to the capitalist who obtains surplus from the work of the worker. As a result of private ownership a worker is led to consider his product as an alien object.[64] As Marx said, private property "on the one hand is the *product* of alienated labour, and that secondly it is the *means* by which labour alienates itself, the relation of this alienation."[65]

The question is: Does the annuling of private property by means of nationalisation (in the case of the take-over of a firm or group of firms in a capitalist economy) and its replacement by state property (as the state is the "only formal and legal representative of society)"[66] lead to a change in social production relations which end exploitations and alienation of labour? Change in the subject of ownership of the means of poduction can be a mere juridical change; a change of *form* which does not by itself become a socio-economic changes concerning the character of the state, class relations, ownership relations in the

rest of the economy, methods of planning and management, nature and extent of commodity money relations, etc.(67) Identification of state ownership with social ownership is incorrect as private, joint as well as social ownership may be hidden under state ownership.(68) But the important point is: state ownership is non-private ownership and is an essential pre-condition for socialisation of ownership.

Hence juridically nationalisation accomplishes the annulment of private property and lays down the basis for changing the content of property relations. It is clear that a limited recourse to capitalist nationalisation cannot institute the social ownership of the means of production. Hence it cannot do away with the exploitation and alienation of labour. Even when nationalisation is attempted in a thoroughgoing manner by a state controlled by the working class, it does not instantly and by itself bring into being social property.(69) Social ownership is something far more fundamental which annuls private property negatively (by means of nationalisation) as well as positively i.e., its replacement by a really higher form of relationship which overcomes human alienation-replacing the rule of objects over man by rule of man over objects (something which cannot be achieved by means of nationalisation alone).(70).

It is clear then that nationalisation as a superstructural change does not, ipso facto, become in reality, a change in the economic base; it only facilitates the latter.

However, nationalisation even in a capitalist economy doesnot quite leave things as it finds them. It is resorted to for achieving some specific socio-economic objectives. These objectives have to be accepted by the state as worthy of pursuit. Normally a capitalist state attempts the use of many other policy instruments, though there may well be objectives for the realisation of which under a certain set of circumstances, nationalisation may appear to be the only option. In any case, nationalisation is undertaken when continuation of an enterprise or a group of enterprises under private capitalist ownership is found to be or considered inimical to the realisation of certain aims of economic policy of the state while their direct state ownership helps or is believed to help the achievement of these objectives. Thus it can be said that nationalisation is adopted for obtaining some objectives of state policy. To this extent, it is not merely a juridical act but acquires some substantive content which is dependent on the specific objectives sought to be obtained by means of

nationalisation. Thus nationalisation cannot fail to modify production relations in the direction of greater socialisation, howsover limited, modest and non-basic the changes so brought about may be.

III

On the basis of the preceding discussion about various elements of nationalisation, we may now attempt a definition of nationalisation. Among various definitions found in the literature, we find the one given by Katzarov to be the most precise and adequate, except for some points of difference.

Katzarov defines nationalisation as follows:- "nationalisation is (1) the transformation (2) in the public interest of a superior kind, (3) of specific assets or (4) of specific activity, which (4) are, or may be, means of production or exchange in the widest sense of the term, (5) into the assets or activity or the community; (a) state (b) local bodies or (c) cooperative - with a view to (6) their (a) immediate or (b) future, utilisation in the general interest and no longer in the private interest".(71)

The above definition comprehensively covers all the elements of nationalisation. It goes beyond the juridical level and covers the substantive aspects of nationalisation in a general way. As it is formulated, its differentiates nationalisation from expropriation, confiscation, statisation and socialisation. However, there are two problem with this definition, One, the conversion of private assets or activities into community or collective assets cannot be brought about by Co-operativisation. Inother words, co-operatives are a form of joint private property and cannot be equated with state property and enterprise. Hence, we have to delete 'coperative' from the Katzerov definition.

Second, nationalisation takes-over private property organised into enterprises. It means, as seen earlier, private property is taken to include private enterprise, production and exchange activity and production relations. Hence nationalisation cannot refer to take-over of private property as isolated pieces of means of production, without necessirily entailing private activity and enterprise. In fact, in many cases, nationalisation may go beyond the take-over of existing property and enterprises and may prohibit future entry of private enterprise in the branch of economic activity acquired

by the state. However, if the government of a country reserves the right to carry on some business exclusively for itself but without taking-over any private property and enterprise, we donot consider this act to be nationalisation as we define it here.

In view of these two propositions, we would like to reformulate the definition of nationalisation as follows: nationalisation is the transformation of a specific private enterprise or enterprises by means of legal processes which convert the means of production and exchange into public property and enterprise or enterprises under the ownership and control of designated state agency or agencies with a view to their operation in accordance with the aims of public policy, though it may or may not reserve the economic activities covered by nationalisation into an exclusive public activity.

Thus nationalisation in the wider sense of the term includes: partial or full elimination of private property in the means of production and exchange (except personal property and small-commodity production), use of non-arbitrary, legal-political processes for accomplishing the task; institution of public or state enterprise or enterprises; in this sense a limited, partial socialisation (in coverage as well as intensity),

of certain spheres of the economy; use of nationalised state enterprises as instruments of public policy for both specific and general objectives,[72] going to the extent of linking them up in an organis manner with the national plan and, in certain cases, also with the process of building up socialism.

IV

Nationalisation so understood has to be distinguished from expropriation. Expropriation is a limitation or dispossession of some private property for serving some public interests which may have to be established according to some legal norms.[73] It is compulsory public acquisitions of private property. It is based on the principle of eminent domain and can be accomplished through an administrative decision. It has been maintained that expropriation generally relates to immovable property, often landed property. It is related to individual or specific items of property. Unlike nationalisation, it doesnot cover private enterprise or activities. The takenover property need not be organised as public or state enterprise. Since expropriation can be brought about by means of an administrative decision, it need not involve enactment of a specific piece of legislation. In brief, expropriation is a more ancient

and wider concept than nationalisation. Non-recognition of the absolute and non-violable sanctity of private property and its limitation and/or annulment in public interest are some of the important elements common to both. However, expropriation is limited than nationalisation in one sense: it doesnot prescribe that other private property similar to the one expropriated by the state cannot be held or acquired any longer by private persons. As compared to nationalisation, expropriation has limited capacity to serve as an instrument of public policy, particularly at higher states of development of capitalism. Contrary to nationalisation, expropriation need not assume the prior existence of capitalist private property, as the state may expropriate pre-capitalist private property as well.

Expropriation cannot take place without adequate compensation, while nationalisation may or may not pay compensation, and need not follow any set formula for the purpose. Since the scope of nationalisation extends to enterprises and activities and is not

confined merely to the legal title to specific pieces of property, the principles and considerations for fixing compensation rate or amount have to take into account the objectives which necessitated nationalisation. It has been argued by Ramkristayya that "absence of difference between 'nationalisation' in the constitution of India had been responsible for the controversy between the Parliament and Judiciary in India, because this lapse provided scope for the frequent misunderstanding between legislative intentions and judicial interpretations. The constituion (Twenty Fifth Amendment) Act 1971 is an attempt to distinguish the concept of nationalisation from the concept of expropriation".(75)

Nationalisation is a concept sharply at variance from the concept of confiscation.(76) Confiscation is essentially a penal measure specifically directed at some specified properties of some persons. It is not undertaken for some general public purposes as is the case with nationalisation. It is not an impersonal measure like nationalisation.

Since confisation is a penal measure undertaken on account of certain types of criminal, deviant activities. it does not form a part of the economic policy package. It is not related to a state's ideological or functional disposition towards public or social ownership or

regarding the economic role of the state. Unlike expropriation and like nationalisation, confisation may relate to an enterprise and the state may have to operate the confisated enterprise. There cannot be any question of payment of compensation for confiscated properties.

Nationalisation has to be distinguished from socialisation. This is correct both for capitalist and socialist nationalisation. Even when nationalisation is undertaken by a state under the control of the working class which "takes possession of the means of production" "in the name of the society", it is "not the same thing as society's taking possession of them"(77).

This is because the phenomenon of society taking possession of the means of production happens "in proportion as the state withers away and administration of things replaces the government of persons", i.e., "there really occurs the taking possession of the means of production by society, which administration itself"(78).

There is a clear distinction between nationalisation of private property in the means of production by the state ("the carrying out of which requires above all determination in a politician"(79)) and socialisation which requires on the part of the society a capacity to account for and allocate the means of production and their product.(80)

It means successful and effective national planning, reconcilling decentralisation of information and activities with social control and direction, is an essential pre-condition for converting nationalisation (essentially a juridical act even when it is undertaken by a state under the control of working classes) into socialisation.

Socialist nationalisation is based on creating the juridical category of social ownership of the means of production by ending private control over them. However, it is only when society becomes capable of consciously regulating its production process by reference to its needs (that is, expending social labour power consciously) (81) i.e. when the law of value does not autonomously distribute social labour resources and products, but it is done by social planning, that the process of converting nationalisation into socialisation succeeds. That is to say, the juridical act of nationalisation, i.e., expropriating the expropriators, which gives social form to ownership of means of production, acquires social content by bringing about socialisation of the concrete production relations by means of social management of the operation and growth of social productive forces. In any case, increase in the social content of production relations is a continuous process which goes on pari passu with the removal of the

contradictions between the social character of the productive forces and their private appropriation based on private ownership. "Seizure of the means of production by the proletarain State may take the form of single act, but taking possession of the means of production by society, withering away of the state, ending of commodity production, constitute, on the contrary, an historical process (conditioned by State ownership) which necessarily extends over a long period, this period being itself divided into successive phases".(82)

This position may be further elaborated in the words of Charles Bettelheim as follows. "State ownership it a necessary canidition for socialisation on the plane of the state (which is not yet socialisation directly on the plane of society), but it is not by itself a sufficient condition. In order that there may be socialisation on the plane of the state, the latter must have the capacity to dispose effectively and efficiently the means of production and their products. Without this capacity we have nationalisation without socialisation. Such a capacity results from an historical development, it is connected with the actual development of the productive forces (which include men themselves, and the level of their knowledge) and with the correlative transformation of production relations."(83)

Thus it follows that socialist nationalisation of almost all the means of production which ends capitalist private property in the means of production and private enterprise, is a major, necessary step towards socialisation, but it doesnot, by itself, constitute or complete socialisation. Socialisation is a continuous process in which every producer becomes common, individually non-divisible owner and every owner becomes producer so that all the social human beings are equally related to the means of production.(84) It becomes the basis for social ownership which ends exploitation and alienation of labour.

Socialist nationalisation takes the process of transition to socialism to a decisively higher level in terms of political, social and material conditions. It ends private property and thus by expropriating the expropriators, changes the class composition in favour of socialism. By instituting collective ownership under the control of the state of the working people, it provides the basis for central planning according to social needs. By transferring to collective ownership extensive and highly advanced means of production which hitherto belonged to private individuals or joint ownership, it provides

(85)

the material basis for building a socialist society. In this respect, the role of socialist nationalisation is similar to that of prior or primitive capital accumulation which gives the capitalist the means to buy the labour power of the dispossessed masses. By giving to the socialist state the ownership and control of highly developed means of production, socialist nationalisation provides the means for further development of productive forces under the framework of non-antagonistic, harmonious social production relations.

The grounds distinguishing socialist nationalisation from socialisation apply a fortiori to capitalist nationalisation, which, being limited and partial, leaves private property, enterprise and related institutions substantially unchanged. There are basic limits to the extent of nationalisation within the capitalist framework which rule out the possibility of full-scale socialisation without eliminating this system. Nationalisation in a capitalist economy introduces an element which is basically alien to capitalism but so long as it remains partial and limited, (i.e. it does not become socialist nationalisation of practically all means of production which abolishes private property and enterprise), it cannot

remove or 'burst asunder' the capitalist integument. So long as the capitalist private property survives and retains its dominance, the process of socialisation remains confined within well-defined limits.

Socialisation essentially is a process which is a concomitant to the socialisation of the production process following the incessant development of social productive forces. The process of socialisation deepens and widens as society acquires increasing control over the methods of management, planning and growth of productive forces. Under capitalism, jointstock companies, producers' cooperatives, increasing state intervention in the economy for valorisation of money capital, (because the circuit of capital requires non-capitalist support from the state and takes the form of economic policy (87) when certain conditions mature), mark the beginnings of the process of socialisation even before a capitalist economy starts taking recourse to nationalisation. Within capitalism, several social or joint forms of ownership are represented by joint-stock companies, and co-operatives. Marx brought out the social character of capitalist joint-stock companies by calling it a "form of social capital (capital of directly associated individuals) as distinct from private capital" and went

on to characterise the emergence of stock companies as "the abolition of capital as private property within the framework of capitalist production itself".(88)

Since the development of productive forces under capitalism gives birth to social or joint undertakings (as distinct from private undertakings), one has to distinguish between "private ownership" and "capitalist private ownership" which enables control over social enterprises, and gives rise to a new set of social production relations under corporate or co-operative forms of ownership.(89) The increasing State regulation and control over the capitalist enterprises is also a form of limited 'socialisation' of capitalist social enterprises under capitalist private property. Nationalisation is a still higher form of socialisation in the sense that it marks a juridical break from private capitalist ownership and gives the state direct and total legal control over the enterprises nationalised. As we have argued, it begins the process of socialisation on a qualitatively different plane. But as Charles Bettleheim puts it, "to suppose that decisions to expropriate or nationalise settle everything and

ensure the coming to brith of a new mode of production is truly to fall into "juridical illusionism". (90)

Thus, it can be said that the process of increasing socialisation takes a qualitative, new form with nationalisation. Since the capitalist state can only formally represent the entire society or nation, but is, infact, and above all, an instrument of the capitalist classes, nationalisation of some of the means of production by a capitalist state cannot remove the basic contradictions of capitalism or mark the beginning of a new mode of production. As Engels showed, "State ownership of the productive forces is not the solution of the conflict (between the social character of the productive forces and private ownership), but it contains within itself the formal, means, the key to the solution". (91)

The extent to which socialisation is possible by means of capitalist nationalisation cannot be understood without analysing some aspects of the nature of state power. Since it is individual or joint capitalist property which is transformed into capitalist state property by means of nationalisation, it becomes essential to ask; how far does nationalisation change the character of the state towards greater socialisation? Clearly,

state capitalist ownership is a higher and more social form of capitalist private property than corporate or cooperative, joint private property. However, it is the dynamics of the interaction between state capitalist property and the charactr of the capitalist state which influences the degree of socialisation brought about by capitalist nationalisation.

Nationalisations by themselves leave the control over state power in the hands of the capitalist class as a whole largely unchanged. A nationalisation of a few firms, or even if it were more extensive, but with payment of compensation, mainly facilitates the re-organisation of capital under the spell of the law of average rate of profit and technological advances. Then, the crucial nexus between the control over the productive apparatus and the basic nature of state's economic policies, planning and controls in the interest of facilitating extended reproduction with sufficiently attractive rates of return does not weaken as a result of capitalist nationalisation. In fact, capitalist nationalisation may in the short-run, strengthen some of the basic processes of capitalism.

It is only in very exceptional circumstances that nationalisation is undertaken for weakening monopolisation. On the other hand, there is some identifiable, direct relationship between concentration of capital and concentration of political power. Ofcourse, the nexus is not that of one to one correspondence or of total identity between economic and political power.

The role of the capitalist state as being essentially subservient to concentrated private control over social capital, production and reproduction is subject to the following limiting factors:-(92) i) the distinction between dominant classes and ruling groups; ii) relative autonomy of various spheres like the economic, political and cultural, iii) interaction between the use of economic and political power for mutual reinforcement as well as for purposes specific to each domain, iv) diversity of interests, competition and nonantagonistic conflict among various groups and strata of highly differentiated capitalist classes, v) various kinds of countervailing power by non-capitalist groups and classes and institutions and vi) need for legitimation of the synthesis of economic and political power in the form of state monopoly capitalism. These factors influence the extent and mechanism of the use of state power by the capitalists e.g., the manner in which the reconciliation of intra - and inter-class conflicts and rivalries is enjoined on the state, or, the manner in which pluralistic-democratic processes

are used to win legitimacy for the system. As a result of the rise of state capitalist property, there emerges an economic basis for strengthening the relative autonomy of the state from concentrated private capital through a reinforced operation of the factors mentioned above.

In such a framework, capitalist nationalisation becomes an unpleasant, worth avoiding but nonetheless a prescribed policy instrument if it cannot be avoided. It may be suggested that the capitalist State, working for protection and advancement of the collective interests of concentrated capital as well as for smoothening and mediation of intraclass conflicts of the capitalists and absorbing pressures from other classes has, under certain circumstances, to move aganist <u>some specific private capitals</u> by way of their nationalisation in order to preserve and protect the <u>general interests of private capital as a whole</u>. At times, in the process, the political legitimacy of the capitalist, or state monopoly capitalist State, improves.

In so far as the historical experience of many capitalist countries shows them resorting to nationalisations and at times, on a fairly extensive scale, (no only convering individual enterprises or groups of enterprises, but whole industries and services and many of them during a relatively short period), one finds that in these countries, neither

capitalism has been weakened nor the force of its institution has been subdued. Post War France, Great Britain and Italy have shown effective co-option of nationalisation by late capitalism.[53]

Capitalist nationalisation cannot lead to an all-pervasive socialisation for yet another reason. It does not come about as an altogether new element in capitalist jurisprudence but is only a further extension of some already existing elements. Capitalist jurisprudence provides for escheat and eminent domain which bring the state in effective, legalised possession of productive property and general conditions of production and their public control and management. It can be argued that under eminent domain, "public purpose" has no fixed, ahistorical, immutable connotation and defines itself concretely under various historical situations which may necessitate transfer of certain productive enterprises from private to public hands. Even the principle of escheat, in its essence, is extendable to the case of such sick and closed unit whose private owners can only wish for its euthanasia but such a course of action may cause headaches to the political regime trying to reconcile conflicting interests. Such moribund enterprises become socially without "heirs" and the state has to step into fill the void.

The case of penal take-over i.e., confiscation of various concern which collaborated with the Nazi occupation forces in France and Italy again bring out the conflict between the individual and the collective interests of the capitalists even in the non-economic spheres who do not hesitate to punish the recalcitrants and deviants for their non-economic non-conformism. Thus nationalisation is a logical extension of some age-old principles and practives of a capitalist economy, besides being necessitated by its own inner logic.

In fact, absolute 100 per cent sway of private property and private enterprise has never been a part of scientific and classical tracts on capitalism right from the days of Adam Smith.(94) Theorists like Lord Robbins saw some elements of planning in the mode of functioning of a capitalist decentralised economy.(95) Taking a dynamic view of the principle of public provision of certain public goods and infrastructure, it may be visualised that not only fresh public investments but conversion of private property into public may as well provide the basis for supply of public and quasi-public goods and fulfilment of collective objectives of capitalist macro-economic management.

Thus capitalist nationalisation is a de-privatised, collective, state policy instrument, which is not inconsistent with capitalism but certainly is a far cry from socialisation of means of production and enterprise. In any case, capitalist nationalisation is not the only means for introducing elements of socialisation.

V

On the basis of the doscussion so far, it may be maintained that the overall character of nationalisation as a policy instrument is, progressive, (in the sense of facilitating changes which resolve emerging contradictions in the economy in the direction of developing productive forces in a relatively equitable manner). This trait is particularly marked when a comparative assessment is made of various policy instruments. Any comparison of the relative roles and character of various policy instruments has to be seen in the light of the policy goals, character and efficiency of state power and the level and stage of development of the economy in question; or, in other words, to what extent it is possible to introduce elements of socialisation in the economy. Given these parameters, nationalisation is a relatively progressive policy instrument, because it is adopted when other policy instruments fail to show adequate responsiveness and make for a better and effective realisation of policy goals.

But there are some additional reasons which inhere in the very nature of nationalisation and bestow on it a

relatively progressive character. For one thing, it goes a few step towards reducing the contradiction between the increasingly social character of the incessantly developing productive forces and increasingly concentrated private control over them. To the extent the most highly centralised capitals are rarely touched by capitalist nationalisation, this role of the latter is weakened. But in so far as non-private, collective forms of ownership expand as a result of nationalisation, and embryonic form of an advanced mode of production emerge under capitalism, this basic contradiction is, to an extent, smoothened. It can be said that nationalisations work towards restoring at least a part of the necessary correspondence between the level of development of social productive forces (determining potential social product) and relatively sticky social production relations. By reducing this 'gap' inherent in capitalism, it makes for the release of social productive forces from the shackles it becomes subject to an account of its inner nature. By the same token, it follows that without a certain level of socialisation in the development of productive forces, attempts to introduce a higher order of social content in production relations by means of nationalisation would amount to an ahistoric, premature step accentuating the contradiction between productive forces and production relations.

True, a system based on a fundamental premise of private property is not in the 'normal' state of affairs expected to make use of the policy instrument of nationalisation which ipso facto limits the scope and range of activities of private capital. But when the initial correspondence between the productive forces and production relations is distrubed owing to the development of the former, giving rise to a production-relations lag, many changes in the mode of functioning of a capitalist economy come about. Some of these changes are spontaneous, others a result of either group initiative or public policy interventions. Increasingly, the role of state interventions in these 'adjustments' gets enlarged. Nationalisation is a measure of this genre. This is in response to the needs of the evolving economic structure. This is what Marx showed in a different context in the Critique of the Gotha Programme when he showed that "Right can never be higher than the economic structure of society, and its cultural development conditioned thereby".(96) 'Economic structure' of a capitalist economy necessitates conversion of a part of the private into public property and the 'right' principle of private enterprise cannot be 'higher' than the compulsion of the 'economic structure', particularly in the midst of 'cultural development' based on increasing state intervention in the economy. Thus the sanctity

and importance of private property cannot prevent resort to nationalisation when the logic of the system and of state interventions necessitate it. The use of nationalisation as a policy instrument in a capitalist economy illustrates how a certain degree of flexibility by means of what was called "institutional laisses faire"[27] is an essential feature of the historical, real economic systems which many theoretical, abstract, 'pure' models totally ignore. For an understanding of the nature of nationalisation, particularly capitalist nationalisation, it is important to underline this element of compatibility between various forms of ownership, up to a point, in different contexts.

These features of nationalisation show its 'progressive' nature in so far as it facilitates continued development of productive forces and adjustment, even though partial, of social production relations to the former. But there is a still more important progressive element attached to it from the point of the long-term social transformation potential and preconditions built up by nationalisation. It demonstrates the contradictions-resolving potential of non-private, collective forms of ownership, which supplement and support collective forms of management adopted by a capitalist economy in the form of national planning, which

is essentially an economy-wide extension of the unit of decision-making and field surveyed in the decision-making processes.

Furthermore, in so far as some elements of a new mode of production emerge in an embryonic form in the womb of the existing system, nationalised sector of the economy is undoubtedly an important one among them. It may be taken to display the shape of things to come. No doubt, incrementally nationalisations can hardly be expected to add up to a socialist mode of production.(28) But in a multipronged, multi-faceted, historical-dialestic process of building up the bases of socialist transformation, capitalist nationalisation, after seizure of power by the working class, is a step towards building of a socialist society; no capitalist nationalisation can perform that role. But capitalist nationalisations are progressive in so far as they weaken private individual and joint capital and its associated cultural-ideological system and build up the rudiments of the future mode of production.

The use of the policy instrument of nationalisation goes to show that no historical social system can be based on a universal and unique method of property ownership; all historical systems have mixed methods of property-ownership with a well-defined structure of dominance by a specific

type of property ownership. For a capitalist economy, the structure of dominance is centred around capitalist private property. This does not make public ownership as such incompatible with capitalism; the dominance of capitalist private property and production is not qualitatively compromised limited by its expropriation in certain branches of production. Thus a conscious and purposive decision to do away with private property in certain specific areas of production and its replacement by public ownership and management by the state is compatible with the basic character of a capitalist economy.

The conversion of a part and generally, a small part, of private property into public property and its further management directly under public aegis is both a necessary as well as a logical development in a private enterprise market economy. This is for many reasons, arising from 'market failures', various crises and limitations in the process of growth of capitalism, problems connected with uneven development of capitalism on an international as well as intra-national plane, changes and differentiation among the basic socio-economic classes of a capitalist society as capitalism reproduces itself, political developments associated with capitalism and for reason of military-diplomatic nature.

Obviously, inherent in the above formulation is the implicit assumption that a market economy may resort to nationalisation upto a certain extent and, probably, in certain sectors in such a manner that neither its overall quantitative weight nor its qualitative significance make the institutions of capitalist private property and the market insignificant, secondary and bereft of their dominance. Chirhonuan discussing Guyana's experience finds nothing necessarily socialist or anti-capitalist in attempts at national control of the commanding heights (99) of the economy. It depends on whether nationalisation is 'compensatory' and supports transfer of surplus to capitalists or is "liquidatory" in the sense that it maintains national control over surplus and prevents the growth of capitalism. (100) One may speculate about the incremental, additive significance of nationalisation over a specific historical period of time if continued and recurring reliance is placed on this instrument for a long period of time, though there may well be some denationalisations as well. Much would depend on the nature of dynamism which a particular capitalist economy shows with respect to the nature of state intervention and the choices of a policy-mix which includes nationalisation. (101)

As of now, one has not seen a capitalist economy in which specific case to case or unit by unit reliance on nationalisation has added up to such a large public sector as may shift the locus of power from private to public or state capitalist sector by changing the class alignments in the economy. Not even the countries with social democratic parties with a Fabian philosophy of gradualism had seen a transformation of the basic power structure and class relations or the nature of state power on the basis of individual acts of nationalisation undertaken over a long period of time. (102) In fact, even the supplementation of a nationalisation-based public sector by fresh public investment-based public sector has not brought about such a qualitative transformation. Certainly, this is not the place to enter into the controversial speculation regarding whether such a transformation is at all in the realm of possibility.

There have to be some specific methods for co-option of nationalisation within the framework of a market economy. This is brought about by restricting the take-over to specific private enterprises. Secondly, adequate compensation payment helps to keep private property intact in essentially money capital form.

It only limits the scope for its operations in certain spheres i.e., the range of activities open for private enterprise gets curtailed by nationalisation. Third, this is an instrument which is adopted when one has exhausted the other feasible courses of action for achieving the ends of public policy. It means this is a kind of a measure of last resort. Additionally, a further difficulty is faced in nationalising private property. Nationalised property has to be used productively and with a measure of efficiency superior to that of the former controllers and managers from the private sector. The managerial constraint on the take-over is further complicated by the financial constraint of compensation liability as well as that of providing for working capital and funds for renovation and modernisation.

Nationalisation leave the operative mechanism of the economy i.e. and basic class divisions and price market mechanism, intact. Owing to inter-enterprise linkages, nationalised enterprises continue to follow, to a large extent the logic of a capitalist economy in their working.

It is suggested that nationalisation as a policy instrument has the disadvantage of inflexibility. Either you nationalise or not, but there is no half-way house.

First, nationalisation has to transfer effective control into public hands. That means it is not quantitatively very much variable. It is resorted to or not resorted to; there are no intermediate options. Secondly, it appears to be or is claimed to be a one-way street. Having once embarked upon nationalisation, it may not be possible to denationalise, at least without a lot of adverse criticism and consequences and without following a lengthy legal-political procedure. Productive apparatus cannot after all, be shuttled between public and private ownership.

On the contrary, it may be suggested that the specific details of a take-over give this policy instrument a certain degree of flexibility as these details are capable of a high degree of diversity and can be changed, even without much notice or without being noticed. But most of this flexibility is available at the point of time when any enterprise or a group of enterprises are taken-over. Some amount of flexibility can be availed of even after nationalisation by changing the organisational structure, financing pattern and operational policies. In sum, it is a policy instrument available to and availed by capitalist economies. It has both a short-run and long-run significance much greater than most of the other policy instruments. That is why it evokes such strong reactions and is made use of less frequently than most other policy investments.

Notes and References

1) Katzarov, K; *The Theory of Nationalisation*, The Hague Martinus Nijhoff, 1964, p.33.

2) *Ibid.* pp. 142 - 147 and pp.147 - 150.

3) *Ibid.* pp. 17 - 18.

4) *Ibid.* p.17 foot note 95 quotes Scammel, E.H.; *Nationalisation in Legal Perspective, Current Legal Problems*, 1952, London (p.30) as saying, "It would be easy, on the onehand, to expound a thesis which would hail nationalisation as a fairy godmother to the nation, and equally easy, on the otherhand, to construct a case personifying nationalisation as a tyrant with bloody hands".

5) Marx, K; wrote, "The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at least reach a point where they become incompatiable with their capitalist integument. This integument is burst asunder. The knell of capit list private property sounds. The expropriators are expropriated." *Capital*, Vol. 1, Moscow, Progress Publishers, p. 715. A similar position is taken by Lenin, V.I., "there is only one way of ending the exploitation of labour by capital, and that is to abolish the private ownership of the instruments of labour, to handover all factories, mills, mines and also all the big estates, etc; to the whole of society and to conduct socialist production in common, directed by the workers themselves" *Collected Works*, Vol. 2, Moscow, Progress, p. 108. *Also*, *Schlatter, R. Private Property: The History of An Idea*, London, George Allen & Unwin, 1951.

6) Katzarov, *op.cit.* p.75.

7) *Idem.*

8) *Idem.*

9) *Idem.* Also, Einaudi, M; Bye, M; and Rossi, E; *Nationalisation in France and Italy*, Ithaca, 1955, Cornell Univ. Press.

10) Clarkson, S. The Soviet Theory of Development: India and the Third World in Marxist Leninist Scholarship. London, Macmillian, 1978, pp. 42-50 & 55-58. For possibilities of and constraints on nationalisation in Africa, see Hughes, G; Pre-conditions of Socialist Development in Africa.(*) Role of nationalisation in economic development is discussed by Bronfenbrenner, M; "The Appeal of Confiscation in Economic Development" in The Economics of Underdevelopment (Agrwala, A.N; and Singh S.P; eds.) London, VP, 1958-pp. 472-494.

11) Beesley, M; and Littlechild, S; Privatisation: Principles, problems and Priorities, in Lloyds Bank Review July, 1983, No. 149. Also, Kaletsky, A., Privatisation in Developing countries. Everywhere (**) in State Bank of India Review, August, 1985. Feature on Privatisation in Asia Clearance sale in Far Eastern Economic Review, 25 July 1985. pp. 63-70.

12) Katzarov, op. cit., pp. 76-69.

13) Ibid. p. 76.

14) See, Gavrilin V; Socialist Nationalisation-Road to Progress; Moscow. Novosty Press Agency Publishing House, 1975. p. 31-48. Also, Nationalisation of Large-scale industry in Russia, in Socialism: Theory and Practice. June, 1979. pp. 119-124. It concluded that "the history of nationalisation as carried out by the Soviet State shows that while conversion of the means of production into public property is a feature of the socialist revolution, its forms and methods depend on circumstances". p. 124.

15) Ibid. p. 78. Gavrilin, V; op. cit., pp. 38-39.

16) Idem.

17) See, Weiner, H.E., British Labour and Public Ownership. London, Stevens & Sons, 1960. Chester, Sir, Norman, The Nationalisation of British Industry, 1945-5, London, HMS Offic, 1975. Also, Robson, W.A; Problems of Nationalised Industry, London, George Allen & Onwin, 1952.

(*) Monthly Review, May, 1970, pp. 11-30.
(**) the state is in Retreat,
*** Monthly

18) Einaudi, M & Others, op. cit., particularly pp. 3-12. "since the end of World War II, governments have, to an increasing extent, accepted the premise that in order to achieve certain vital aims of public economic policy, it was necessary to place not only control but outright ownership of economic assets in public hands". p. 4

19) For instance, giving the figures about the value and magnitude of the transfer of assets from private to public ownership by means of nationalisation of transport in the U.K., it was said that the British Transport Act of 1947 taking over railways and long-distance haulage represented the largest transfer from private to collective ownership in a capitalist economy. See, Katzarov, op. cit., p. 14 foot note. Also, Chester, Sir Norman, op. cit. pp. 12-15.

20) I bid. p. 24 Gavrilin, V; op. cit., p. 44 makes a similar point.

21) Gavrilin, V; op. cit. p.45

22) Katzarov, op. cit., p. 240.

23) Gavrilin, V; op. cit., pp. 43-49.

24) It has been maintained that socialist nationalisation is not incompatible with compensation payment for capitalist property; it depends on actual, concrete circumstances. As Engels, F; wrote, "we by no means consider compensation as impermissible in any event; Marx told me (and how many times!) that in his opinion we would get off cheapest if we could buy out the whole lot of them". Marx, K; and Engels, F; Selected Works, Moscow, Progress Publishers, p. 474. Lenin also wrote that according to Marx "The idea was conceivable of paying the capitalists well, of buying them off. " Lenin, V.I; collected works, vol. 27 Moscow," p. 345. It appears that in the case of wholesale nationalisation of all the means of production, compensation payment is not apperently meant to give freely mobile money capital to the capitalists for investment (this is not permissible as private enterprise too is eliminated along with capitalist private property). The purpose of such compensation p ayment seems to be mainly political, to weaken

the resistance of the capitalists to buy them off politically, in order to move on to complete the process of transition to socialism with the least possible disturbances.

25) Racine, R. quoted in Katzarov, K; op. cit. p. 71.

26) Brunhoff, S. de, The state, capital and Economic Policy, London, Pluto Press, 1978. p. 62.

27) Encyclopaedia Britannia, Micropaedia. vol. VII "Nationalisation" by Montpel Piranesi. p. 214.

28) Engels, F; Anti-Duhring (p. 308-309. & pp. 46-77). Many others also highlight this aspect of nationalisation. See, Gaitskell, H; socialism and Nationalisation, Fabian Tract, 1956 pp. 5-7. Reprinted in Nationalisation: A book of Readings Ed. Hanson, A. H; Allen & Unwin London, 1963. Einaudi, M; "The shift to Direct controls in Nationalisation in France and Italy. op. cit., calls it "outright ownership of economic assets in public hands". (p. 4)

29) As Ramkistayya Maintains, "If a law doesnot provide for the transfer of private interest to the state or the bodies created by the State, it cannot be regarded as a nationalisation measure. For instance, although many land reform measures involve compulsory divesting of private interest in land, they donot necessarily provide for the transfer of these interests to the state, but frequently provide for a redistribution of the expropriated land to private individuals....... .... Those cannot be regarded as nationalisation measures" Chap. II. Ramkistayya, V. Problems Related to compensation on Nationalisation of Industry. An unpublished Ph. D. Thesis of Osmania University. 1977.

30) Tinbergen, J Economic Policy: Principles and design, Amsterdam, 1956. p. 203.

31) Lenin - quoted above in footnote 5 above. Also Katzarov, op.cit. p. 11.

32) I bid. p. 16.

33) The concept of property is an inter-disciplinary concept, with its links with economics, philosophy, law, political theory, etc. Many different schools of thought have treated the concept differently. Main schools of thought which have viewed property differently are as follows:- free trade school, classical liberal view, Romantic view, Christian social view, Fabian view, Marxist view, Tawney's view, etc. thus been defined as "total net value See, Forsuth, M; Property and Property Distribution Policy, London, P. E.P Publication, 1971. pp. 1-10. In a financial accounting sense, property has been defined as "total net value of the assets of a natural or legal person at a particular time". I bid. p. 21. See also, Schlatter, Richard, Private property: The History of an Idea op. cit., particularly chapter VIII "The Natural Right of Property" & Chap. VIII & IX on the clasical theory during 18th & 19th centuries.

34) Placing limitations or some controls on private property is not alien even to those schools of thought which regarded individual property as 'natural', for instance, the classical liberal view of property, propounded by T.H. Green, which regards p rivate property is natural because it is regarded as "the external means of realising and expressing their inner, free and rational will" also concedes that "where the proprietary rights of one group of people interfered with the development of the proprietorial capacity of others", "some control over property rights was necessary". I bid. p.3. In fact, some theorists have suggested that capitalist private property, while claiming to be based on the principle of the natural right of property, itself came into being by subverting feudal private property. Schlatter argued that capitalist private property was, infact, subversive of the legal rights of landlords and other inportant groups of owners and in the modern capitalist world none of the important forms of property can be linked to the natural right theory" op. cit; p. 278.

35) Lange, O; Political Economy, Vol. 1: General Problems; New York, Macmillan, 1963. pp. 16-17 and pp. 59-60 and pp. 66-67.

36) Lange, O; Op. cit

36) I bid. p. 16.

37) Haba, Zdenek, Social Ownership as a Type of Economic Relationship in Czechoslovak Economic Papers, No. 15 Prague, 1975. pp. 7-23. Its attempt to make a distinction between property relations "(relations between man and objects)" and ownership relations ("relations between people and only mediated by objects"). seems to be overdrawn and unnecessary. p. 7.

38) Lange, O; op. cit. p.8

39) I bid. p. 17. see further, "The decisive role is played by the ownership of the means of production, which conditions all the relations of production constituting the economic base of the social formation in question. The ownership of means of production determines the goals to which the means of production are directed and hence to which all the productive forces of a given society are turned. It also determines the means of obtaining these objectives, The ownership of the means of production determines, moreover, the objection and activity of all those persons who are not owners of the means of production. Thus ownership of means of production determines the economic stimuli in work in a given social formation, as well as the nature of reaction to such stimuli." p. 66.

40) Katzarov, op. cit., p. 4.

41) I bid. p. 6 also Hanson, A. H; "property was regarded not merely as a relationship between the owner and the things he owned but as a tripratite relationship which also involved society". In preface to Katzarov, op. cit. pV.

42) Katzarov, op. cit., 130 and 41.

43) Piraresi, M; op. cit. p. 214.

44) Crossland, C.A.R; The Future of Socialism.

45) As Robson, W.A; puts it, the disillusionment of the Labour Party with the results of nationalisation was partly due to the fact that they expected too much from the mere fact of nationalisation and due to insufficient

understanding of the development, organisation, management technology and labour in taken-over industries and due to persistent denigration of the nationalised industries by powerful organs of the private sector. in _Nationalised Industry and Public ownership_, London, George Allen and Unwin, 1962. pp. 463-464.

46) Katzarov, _op. cit._, pp. 25 and p. 141.

47) _I bid_. p. 160.

48) Katzarov, _op. cit._, p. 139.

49) Robson, W.A; in preface to Katzarov, _op.cit._, p.V. also _I bid_. p. 13..

50) _I dem_.

51) _I bid_. p. 140.

52) Picciotto, Sol, "Firm and state in the World Economy" in _Nationalisation of Multinationals in_ Peripheral Economies (ed. Faundez, D.O. & Picciotto, S.) London, Maccmillan, 1978. p. 219.

53) _I bid_.

54) Brunhoff, S.d; _The State, capital and Economic Policy_, London, Pluto Press, 1976, Chapters I, II & III.

55) Picciotto, _op. cit._, p. 223.

56) Brunhoff, _op. cit_. p. 102

57) _I bid_. p. 66

58) According to brunhoff, Althusser maintained that the state operates not only through 'violence' and 'ideology' but also at a distance'. p. 102.

59) Marx. K; _Capital_, Vol. III Moscow, Progress, p. 436.

60) Katzarov, _op.cit._, p. 157 foot note 149.

61) _I bid._ pp. 150-157.

62) _I bid_. p. 151

63) _I dem_. The same idea is expressed forcefully in this

way, "Sociology, economics and law are inanimous in declaring that the nation is not the state; and this is what the originators were expressly trying to emphasis by the choice of this term". I bid. pp. 152-153. The nationalised enterprises are not under the spell of the market forces in the same way as private or corporate firms are; the former are under public influence to a much greater extent than the latter. As Beesly and Littlechild (op. cit., p. 4) imply when they way "selling a nationalised industry substitutes market discipline for public influence". Hence it is incorrect to hold, as Ohiorhenuan, J.F.E, does, that nationalisation has meant the incorporation of workers in the direct orbit of the state machinery". in "Dependence and Non-Capitalist Development in the Caribbean; Historical Necessity and Degree of Freedom" in Science and Society, Winter, 1979, p. 406.

64) Haba, op. cit., pp. 8-9.

65) Marx, K; Economic and Philosophic Manuscript of 1844 (English edition) Moscow, ... p. 72.

66) Haba, op. cit., p. 16. He also says, "the necessity of a state form of ownership is thus universally accepted" as "the natural successor to the role of the legal subject of ownership of means of production". p. 16.

67) As Ohiorhenuan, op. cit., says, the change in ownership structure reflects a change in the source, not the conditions, of exploitation of labour". p. 404.

68) Haba. op. cit., p. 7.

69) This point is elaborated a little later in the following pages. Haba, op. cit., p. 16 cites Lenin to hold this view.

70) I bid. p. 10.

71) Katzarov, op. cit., p. 160.

72) I bid, p. 161. He thinks that the term 'nationalised undertaking' is no longer justified.

73) I bid, pp. 142-147.

74) Ramkistayya. V; op. cit., chapter II.

75) I dem.

76) Katzarov, op. cit., 147-150.

77) Bettleheim, Charles, The Transition to socialist Economy, Sussex, Harvester Press, 1975. p. 43. emphasis in the original.

78) Idem.

79) Lenin, V.I; Collected Works vol. 27. p. 337.

80) Bettleheim, C; op. cit. pp. 43-47. As Lenin pointed out, "The difference between socialisation and simple confiscation is that confiscation can be carried out by 'determination' alone, without ability to calculate and distribute properly, whereas socialisation cannot be brought about without this ability". op. cit., pp. 333-334. As quoted by Bettleheim.

81) Marx, K; Capital, vol. I., pp. 50-51, Moscow, Progress, 1971.

82) Bettleheim, C; op. cit. p. 166 emphasis added.

83) Bettleheim, C., op. cit., p. 45.

84) Haba, Z; op. cit., pp. 12-15.

85) Bettleheim, C; op. cit. shows how, owing to inadequate level of development of productive forces in Soviet agriculture, though land was nationalised at the time of the October Revolution, exploitation of the land was done mainly by individual pesants for quite some p. 46.

86) Preobrazhensky, E; The New Economics, London, OUP, 1965. considered the nationalised industrial sector to be based on primitive socialist accumulation.

87) Brunhoff, S.d; op. cit., pp. 61-62.

88) Marx, K; Capital. vol. III, Moscow, Progress, 1971. p. 436.

89) Bettleheim, C; op. cit., pp. 164-165. As he puts it, The same juridicial concept of "private ownership" covers a succession of economic realities which differ profoundly, since they range from simple commodity production to state monopoly capitalism, with, in between, capitalist private production, capitalist social production and monopoly capitalism". p. 164.

90) Ibid. [illegible]

91) Engels, F; Anti-Dühring [illegible] 206-207.

90) I bid. p. 171.

91) Engels, F: Anti-Dühring, pp. 306-307.

92) This is a synoptic view of the nature of capitalist state derived from many works. Important among these being:- John Urry, The Anatomy of capitalist societies: The Economy, Civil Society and the State, London, Macmillan, 1981. Therborn, G; What Does the Ruling Class Do When It Rules? London, Verso, 1980. Particularly Part II. Miliband, R; The State in Capitalist Society, London, Weidenfeld & Nicolson, 1969. Poulantzas, N. The Problem of the capitalist state, and Miliband, R; The Capitalist State: Reply to Nicol Poulantzas in Power in Britain, (Ed. John Urry and John Wakeford)*, Heinemann Educational Books, 1973.

* London

93) See References cited earlier footnote number 17.

94) See, Robbins, L; The Theory of Economic Policy in English classical Political Economy, London, Macmillan, 1961, lectures II, IV & VI. He explains "the theory of positive state action - the agenda of the state as distinct from the sponte acta of individuals" in the English classical political economy. p. 188. He maintained that "the English** freedom as arising in vacuo or functioning in a system of law and order so simple and so minimal as to be capable of being written down on a limited table of stone (or a revolutionary handbill) and restricted to the function of the night watchman". p. 188 .

** Classical Political Economists never conceived the system of economic

95) Robbins, L; "Individual Action in the Environment of capitalism" from his "Economic Planning and International Order (London, Macmillan, 1939) reproduced in Capitalism, Market socialism and Central Planning (ed. Looman, W.A) New York, Haughton Mifflin Co. 163. pp. 5 to 12.

96) Marx, K; Critique of the Gotha Programme, p. 22.

97) Wiles, Peter, The Political Economy of Communism, Oxford, Basil Blackwell, 1964. p. 14

98. Therborn, G, probably refers to this kind of an approach by his term 'economistic evolutionism'* p. 163.

* op. cit.,

99) Ohiorhenuan, John, F.E; _op. cit._, p. 404.

100) _I bid._ p. 405

101) _I bid._ "State capitalism per se doesnot mean a transition towards socialism, still less does it mean socialism". p. 407.

102) For debates on such issues in the British Labour Party, see, Weiner, H.E; _British Labour and Public Ownership._ London, Stevens & Sons, 1960. especially chapters III, IV & V.

For Swedish experience, see, Samuelson, Kurt, _From Great Power to welfare State. 300 years of Swedish social Development._ London, George Allen & Unwin, 1968.

NATIONALISATION IN INDIA AN OVERVIEW

Kamal Nayan Kabra

In this chapter we attempt to give an overall account of the process of nationalisations in India over the period 1947-1980. The account of nationalisation has been given for various plan periods and some salient features of each take-over are brought out on the basis of our detailed study of each one. This is followed by an examination of the sectoral composition of nationalised public sector. In the last part of the chapter, we attempt to present a picture of the overall size of nationalisation in terms of number of units and some financial indicators. We also show the relative size of the nationalised sector *vis-a-vis* the corporate sector, the non-government corporate sector and the public sector.

During the period 1947 and prior to the promulgation of the Constitution in 1950, there was only one instance of nationalisation. In 1948, the Reserve Bank of India was nationalised bringing to an end the controversy regarding the setting up of a fully government-owned Central Bank for the country. This nationalisation, in which compensation paid to the erstwhile owners was Rs.5.93 crores (against a paid-up capital of Rs.5 crores), came against the background of an adverse advice regarding its nationalisation by the Governor of the RBI. Since the Governor

of the RBI had ~~to bow before the expressed policy-decision~~ and commitment of the Government to go ahead with the take-over of the RBI, the nationalisation law expressly sought to ensure that the change in ownership remains a mere formal one without acquiring substantive content.

In any case, even prior to nationalisation, the RBI as the Central Bank of the country was operated under a great deal of Government control. The former owners who were represented on the Central Board of the RBI and had strong links with the larger industrial houses of the country, were also maintained on the newly constituted Board of the RBI after its take-over. In keeping with the federal polity of the country, and following a large number of economic and social issues listed in the State's list of the Constitution, the State Governments deserved representation on the Board of the RBI. But this did not happen. Nor for that matter, labour and other professional and economic groups in the country were given any say in the control and management of the RBI. Thus there is little wonder that this take-over did not stir a ripple of protest form any of the sections who are generally opposed to nationalisations.

After the new Constitution came into force (which laid down the procedure and term of State acquisition of

private property) the Government acquired in 1952 the Vizag Shipyards by means of share acquisition. The price paid for the shares was lower than the paid-up capital of the company. However, as we see in the chapter on Nationalisation of Shipping Companies, take-over of this company was more of a necessity than of a choice and did not receive attention of the public as an act of nationalisation. This is because, by and large, the companies whose control and ownership were transferred to the State by means of share acquisition were not popularly perceived as acts of nationalisation.

Thus one may say that nationalisation of none airline companies in 1953 by means of an Act of Parliament was the first real, meaningful and noticeable policy decision to nationalise an entire branch of economic activity. As we see in the Chapter in airlines take-over, this decision to nationalise an entire branch of economic activity was taken in the face of recommendation by an expert body which was generally, though vaguely, against nationalisation. The Enquiry Committee, headed by a judge, recommended liberal government assistance, both financial and interms of traffic and tarifs and for strengthening private operators by means of mergers. Though the Government went in for take-over of these companies in which some of

the most prominent and biggest industrial houses in the country had stakes, terms of the transfer to public ownership were very carefully devised in such a manner that the hurt was minimised and this decision was not allowed to cause any misgivings in the minds of the industrialists and prospective private enterpreneurs regarding any threat to private property by recourse to 'confiscatory' measures. In fact, many interest within the country and abroad showed an understanding attitude towards this decision. The fact that some powerful private interests in civil aviation continued to hold sway in this arena even after nationalisation by being nominated to commanding positions in the new set up and in the determination of compensation amount for their earlier enterprises may well have contributed to this non-hostile attitude towards nationalisation of airlines. A minor engineering company was taken over by means of share acquisition in 1953, owing more to political and micro level factors related with the integration of the former princely states, than to any sectoral or general macro-level factors.

The year 1955 saw a major act of public sector entry into banking, inaugrating an era of mixed commercial banking, when in 1953, the powerful Imperial Bank of India, the biggest commercial bank in the country with

close connection with the RBI and having some participation by foreign capital, was nationalised. Though one of the major reasons for the take-over of the Imperial Bank of India was the need to extend banking in the country by following a policy of vigorous branch expansion and for giving special attention to the needs of the primary sector, this nationalisation become a forerunner of eventual total transformation of private sector banking into public sector banking. However, an excessively liberal compensation amount was given to the former controllers and there was a liberal association of private tradea and industrial cricles in the management of the successor State Bank of India. This was clearly reflected in the banking and lending policy of the SBI which could not change the composition of its loaning operations in any way different from that of the commercial banks controlled by large industrual houses.

The year 1955 also saw a joint sector company being converted into a fully government company owing to administrative and operational problems. Thus one finds that during the pre-plan and the First Five Year Plan period nationalisation had made a mild and halting beginning involving two financial institutions and civil aviation and three minor shipping engineering and housing cimpanies. In terms of the policy perspective operating

during the First Plan, nationalisation did not seem to count for much, except that if civil aviation was not taken-over by the Government, liberal financial assistance would have been necessary for modernisation and expansion of the fleet by the private companies. The nationalisation of the RBI was largly a matter of formal nature (negative in the sense of reducing the direct power of private enterprise over money supply and monetary policy) and of long term significance. The nationalisation of the Imperial Bank of India gave a very significant foot-hold to the Government in the financial sector in general and commercial banking sector in particular.

During the Second Five Year Plan period, there was a marked increase in the number of nationalisations, particularly, in the financial sector, involving both commercial banks as well as life insurance. In all, 250 financial companies were transferred the private to the public sector for subsequent operation as public sector units. Only three non-financial companies were nationalised in 1960. Two of these, Mazagin Dock and Mughal lines belonged to the shipping and ship-building sector, while the third one, Garden Reach Workshop was operating both in the field of ship repairs and engineering. These companies were acquired by means of share acquisition Considerations of defence related production and the

need to expand ship-building and shipping services were the main reasons for conversion of these private units into public ones.

The most significant step during this period was the nationalisation of 245 life insurance companies whose net-worth was in excess of Rs.24 crores. Public sector was granted the monopoly of life insurance business. These companies with assets of Rs.411 crores and business of about Rs.1250 crores were acquired by passing appropriate legislation in the Parliament, giving a compensation of Rs.5.21 crores to the former controllers of these companies. It was officially stated that his nationalisation had for long been under consideration of the Government which had been making discreet inquiries into the matter and found that the normal controls under the Insurance Act were insufficient to prevent widespread mal-practices in this sector.

On top of these sector specific objectives, nationalisation of life insurance was considered a useful measure in order to enable the Government to raise financial resources to meet the ambitious investment needs visualised for the Second Five Year Plan. The Government was also aware of the close linkage between insurance companies and the controllers of large industrual concerns.

As a result of snapping the ties between the controllers of insurance companies and those of large industrial concerns, it was expected that this step would contribute to weakening the forces of concentration of economic power. This aim latched on quite well with the newly accepted objective of striving for a Socialistic Pattern of Society.

In addition to the take-over of the Imperial Bank of India in 1955, as a follow-up of the recommendations of the Report of the Steering Committee on All India Rural Credit Survey, the Government had pending with it the recommendation of the same expert body and for the same set of reasons for the merger of many banks set up in various former princely states generally having a good deal of involvement by the former Maharajas and operating in their respective territories. Rather than straight away accept this recommendation and merge the bank with the SBI, the Government started having second thoughts in the matter. This was partky on account of the implocations of the merger for the wage bill of these banks. Since the Imperial Bank of India's wage and salary structure was better than that of these princely states banks and in view of the strong unionisation of the employees of the State Bank of India. Government started thinking in terms of an alternative to the merger of these smaller banks with SBI. Additionally,

in order to avoid generation of misgiving in the private sector concerning 'socialistic' intentions of the Government which were seen in business circle to be surfacing in the wake of the take over of the Imperial bank of India and the insurance companies in quick succession and the passing of the Avadi Resolution on the Socialistic Pattern of Society by the ruling party, the Government wanted to consult these banks regarding their attitudetowards their merger with the SBI. Some banks like the Bank of Baroda and Bank of Rajasthan, which had the association of many industrialists with them opted against merger with the SBI and wanted to retain their independent private existence. The other banks were not averse to their association with the SBI. Thus only the consenting banks were nationalised (and made subsidiaries of the SBI) but by avoiding their merger with the SBI and retainging their separate identities, universalisation of the working conditions of their employees was avoided, leading to some savings for some time in the wage bill for the public sector banks.

During the Third Plan period, very few nationalisations which took place were in the banking sector. Since these were brought about by means of normal day to day administrative action in terms of the enabling

provisions of existing laws on the statute book, they escaped public notice. In all, 18 small banks were brought under public control and were merged either with the State Bank of India or its subsidiaries. Transfers to public sector banking were brought, about of three banks in each year in 1962, 1963 and 1964, in 1965 of four banks and in 1961 of five banks.

The private banking sector in India was facing many problems on account of many small and non-viable banks which had mushroomed during the post Second World War period. In order to deal with these small banks often facing closure and liquidation, the banking companies Act, State Bank of India Act and the State Bank of India (Subsidiaries) Act contained enabling provisions for merger of these sick banks with other larger banks including public sector banks.

It is an interesting co-incidence that during the Third Plan period, the last of the plan of the Nehru Era, when no nationalisations of important non-financial enterprices took place and nationalisation was absent from the agenda of public policy, two small companies in the shipping sector were acquired by means of share transfers. Both these companies were taken-over on account of factors relating to wars and external relations.

In 1962, as a result of liberation of Goa, a small ship building company under portugese control was acquired and subsequently came to work as Goa Shipyards. In Eastern India, a private company operating shipping services in Bengal, Bihar and Assam became non-viable as a result of hostilities with pakistan which jeoparadised its functioning in what was then East Pakistan and necessitayed its take-over for continued functioning.

The Third Plan was followed by a serious political and economic crisis which was reflected in discontinuation of medium term (five year) planning and their replacement by annual planning during 1966 to 1968. During this period, one could not have expected any major economic policy initiatives. Except for the continuation of the policy of strengthening the banking sector by weeding out the sick and inefficient banks and by merging some of them with the public sector took place. During the period 1966 to 1968 six small private banks were merged either with the State Bank of India or its subsidiaries.

One can see that during the period 1947 to 1968 i.e. during the first 21 years after independence, the only significant nationalisations were in the financial sector involving the Imperial Bank of India and five large princely states associated banks, the life insurance

business and a good number of sick and inefficient banks. The nationalisation of civil aviation during the First Plan period was the only significant nationalisation in the non-financial sector, though again it did not form a part of the manufacturing or goods producing sector. After all, it is the industrual sector in which there was a significant concentration of private capital and which could well be regarded as the most compact and most powerful economic interest in the country's private sector. In terms of erosion of the power and resource base of the private sector, these nationalisations did not count for much especially in comparison to the growth and expansion of the corporate industrial sector which was attributable to public policies, planning and public sector support, the number of companies taken-over during the Second Five Plan period accounted for almost 17 percent of all the take-overs in the country, though their significance in terms of either paid-up capital or assets or compensation is not comparably significant.

However, owing to the significance of life insurance in the financial sector of the economy in terms of turn-over and net-worth, the contribution of Second Plan to all the nationalisation amounted to about one-tenth of the total. Such steps of nationalisation lacking by and large, a systematic basis and without an overall economy wide perspective cannot be regarded as

constituting an identifiable element of a public policy which forms part of available feasible policy options, whenever alternatives are appraised. They remain simply as so many specific acts of state interventions, and fail to define any policy towards change of property and social relations. No wonder, even their unintended, incidental impact towards a more even distribution of assets and economic power remains rather limited, particularly in the short-run.

With the begining of the Fourth Five Year Plan, we find that there began the era of greater reliance on nationalisations than during any other period of our study viz. 1947-80. With the nationalisations of 14 major banks, coal industry (inculding both coking coal and other coal mines), general insurance companies, and a large number of engineering, shipping and other miscellaneous companies, no other plan period had seen so many nationalisations. In terms of the number of units taken-over the Fourth Plan period accounted for about 71 percent of all the nationalised units which provided over 64 percent of the entire paid-up capital, about 34 percent of the networth and about 44 percent of the assets of all the nationalised productive enterprises during the period 1947-80;

With the nationalisation of 14 major commercial banks and of 107 general insurance companies, the nationalisations during Fourth Plan period accounted for over 77 percent the turn-over of all the financial institutions nationalised during the period of the study. With almost all the coal-mines, eleven engineering companies, two shipping companies and some other miscellaneous companies, the period 1969-73 accounted for a good many of the non-financial nationalised companies, reflecting the very small proportion these taken-over companies formed of the total of non-financial companies. Their turn-over was barely 6.4 percent of the turn-over of all the nationalised non-financial companies. Taking the financial and non-financial companies together, one finds that in terms of the total compensation paid for nationalised undertakings the Fourth Plan nationalisations accounted for over 46 percent of the total compensation amount paid by the government.

During this period, most of the companies were taken over by means of enactment of an appropriate law authorising the converstion of private companies into public sector units. Reliance on this method attracts greater public attention than, say, share acquisition through an administrative order. Share acquisition

through an administrative order. Share

of two tannery units of British India Corporation, and mergers with public sector banks of National Bank of Lahore and Amrit Bank were cases of other take-overs, along with that of Indo-Burmah Petroleum Company which was also acquired in 1970 by means of share acquisition. As a consequence a number of its subsidiary companies also got transferred to the public sector. In the year 1972, yet another large engineering company was acquired by means of share acquisition because its management was unable to provide proper management and was indulging in fraudulent practices.

The take over of the Indian Copper Corporation by an Act of Parliament in 1972 gave public sector the monopoly of mining and processing of copper in the country. A very interesting feature of the take-over was the ratio between the paid-up capital of the company and the amount of compensation which was given to it. This ratio worked out to be 2.5 times the value of paid-up capital. It may also be mentioned that this company also had some investment of foreign capital in it.

The year 1972-73 also saw the take over of 226 cooking coal mining firms as a step essential not only for the conservation and scientific development of critical natural ~~resourcess~~ resources, but also something very

important for the future development of iron and steel industry. In the year 1973, the take-over of the coal-mining industry was completed with the take-over of almost all the remaining 711 coal-mine concerns in the country. T he public sector acquired control over 98 percent of all the coal production along with monopoly rights for operating coal-mines in the future. Similarly, the nationalisation of the insurance business was completed in this very year with the nationalisation of 107 general insurance companies.

With the nationalisation of Alcock Ashdown & Co. and Jessop & Co., two very large engineering companies were brought under the public sector. While the former was taken-over by an Act of Parliament, the latter was acquired by means of share acquisition and conversion of loans into equity. There were some other smaller companies which were also nationalised in 1973.

It may be noted that this period concided with that phase of India politics in which an intense power struggle in the ruling party was fought on a radical platform of nationalisations and the slogan of 'Garibi Hatao' (remove poverty). The nationalisation of 14 major commercial banks, grounded as it was in the needs of the economy in terms of providing the essential

creditbase for implementing the new agricultural strategy of greater reliance on new improved inputs and larger farmers, was clinched on account of the power struggle in the ruling political party. As is well known, the take-over of these banks almost coincided with the great split in the Indian National Congress in 1969. The nationalisation of general insurance companies formed a part of the Ten Point Programme and the election manifesto of the Ruling Party in 1971. It may also be noted that for a part of this period when there was a greater recourse of nationalisation, the congress government was critically depending for its parlimentary survival on the vote of the Left parties, particularly the CPI and the CPM.

It is true that nationalisation of coal-mines was amply justified on account of the failure of all the regulatory measures and institutions brought into being for the purpose. However, the role of progressive elements within the congress party, like Shri Mohan - Kumarmangalam, cannot be gainsaid in decisively adopting nationalisation as the way out.

However, in the case of take-over of Jayanti Shipping Company, the Government only tried to do the best of a bad bargain. This move was to belatedy under one of the biggest swindlings of the public exchequer in the

form of a massive loan form the Shipping Development Fund set-up by the government by means of manipulations. The subsequent mismanagement and sharp business practices by two smooth operators who masterminded the whose goods landed the Government in a rather embarassing corner. However, what is surprising is that despite the generally prevelent relatively radical mood in the ruling party, a rather liberal, non-punitive treatment was given to the two persons who floated and controlled one of the biggest Shipping Companies in the country based almost entirely on public resources.

As seen earlier, relatively heavier concentration of nationalisations during the Fourth Plan period was related tothe requirements of introduction of new agricultural strategy and relatively radical stance taken by the Congress Party. However, there is one more factor which is important form the point of view of understanding the take-over of a good number of engineering firms during this period. A recession hit the Indian industries during the later half of the 1960s and rendered many older engineering firms sick. As a result, there was something of a bunching of industrial sickness among many ageing engineering companies. Many of them had either some involvement of foreign capital, or they had recently been acquired by some Indian managements from foreign interests. They could not provide a kind of

management which could see these companies through the hard times they were facing as a result of fairly wide-spread industrial recession and slow-down of public investment.

During the Fifth Plan, the process of taking-over of engineering firms continued and generally for the same set of reasons. In all, during the period of the Fifth Plan (1974-77), engineering companies and some small miscellaneous companies were acquired by the state. The major highlights of nationalisations during the Fifth Plan period consisted of final take-over of 103 Sick Textile Mills in 1974. These companies were brought under public management in 1972 and some even earlier , under the Industrial Development and Regulation Act, but the final take-over by transfer of ownership was brought about in the year 1974. This was also the period when the entire petroleum oil industry was brought under public control by nationalisation of three big international gaints operating in India. These take-overs, affected by means of legal enactments, were actually negotiated transfers to public ownership on the basis of mutually agreed terms and conditions.

By nationalisation of oil refining and distribution companies one of the major areas in which foreign capital was operating in the Indian economy for a long period

came to an end. Partly the first and second oil shocks which increased India's import bill of petroleum products to dizzy heights contributed to the decision to nationalise this industry providing an important energy source in the country. Another factor was oil imports, pricing and distribution policies followed by the foreign oil companies and the inequitous terms and conditions of the refinery agreements. These harsh terms induced the policy formulators to go in for a gradual strengthening of direct fresh public investment based public sector participation in the oil industry from the stage of exploration to distribution. On the basis of an already strong public sector presence in the oil sector, the government was entire oil industry.

In terms of overall significance, the Fifth Plan nationalisations come next only to those during the Fo... Plan. Though in terms of numbers the second plan accounted for a little more than double the number of companies taken-over during the Fifth Plan period, but in other respects, the Fifth Plan contribution to the total size of the nationalised sector turns out to be greater than that during the other plans except the Fourth one. A significant point about the take-overs during the Fifth Plan period is that these were concerned exclusively with the non-financial manufacturing sector. In the textiles the public sector came to account for almost

one-fourth of the total textile industry. In the energy sector, the entire petroleum products industry was made a part and parcel of the public sector. A good number of large, though ageing, engineering companies were also nationalised during this period. Thus one finds that in terms of the turn-over of the non-financial nationalised sector, the Fifth Plan accounted for as much as 88 percent of the total value of nationalised turn-over. In terms of paid-up capital and net-worth, the nationalisation during the period 1974-77 accounted for about 23 percent and 44 percent of all the take-over respectively.

It is interesting to note that despite the larger share in turn-over and in terms of shareholders' capital, the contribution of Fifth Plan nationalisations to tht total of the assets take-over comes to about 2 percent only. This shows very worn-out and depreciated state of machinery, plant and equipment in the ageing textile mills as well as in the sick engineering firms. The oil companies transferred a good part of their assets, mainly reserves, abroad, as they concluded that their Indian business is no longer attractive and their days in India were numbered. This also led to a low value for the assets of the taken-over concerns.

During the period of the Janta interuled (1978-79) five engineering companies were nationalised. Some of these companies had warlier been brought under public sector management control and their evential nationalisation was only a matter of time. It is significant to note that in terms of the number of units taken-over, the Janta period covered the least number of nationalisations, even less than the number of nationalisations which took place during the period of three annual plans. Probably this is an indication of the lack of direction which the Janta conglomerate of diverse political hues, brought under one umbrella by strong and exceptional politicial exegencies, had inevitably to suffer.

In order perhaps to sharply underline Janta Party's lack of direction, the new regime which came to power in 1980 and started the new Sixth Plan from that very year, swiftly and suddenly took-over six private scheduled commercial banks which had experienced phenomenal growth during the post 1969 period (when the public sector came to acquire a commanding position in the banking sector). Even if it is true that it was a politically motivated use of the policy instrument of nationalisation on the eve of crucial assembly polls, the fact remains that during this one year as many as 16 other non-financial companies in addition to the six commercial banks were

nationalised. Among the nationalisations which took place during this year are the cases of two bicycle manufacturing companies which had a fairly important place in the bicycle industry.

The nationalisation of Bird & Co. and Bengal Chemicals and Pharmaceuticals were typical cases of take-over of sick industrial enterprises. What is of greater significance is that the first year of the Sixth Plan witnessed fairly significant additions to the public sector in the Jute Mill industry as a result of take-over of six jute mills which were either sick, closed and/or on the verge of closure. There were also five cases of consequential taken-over of five subsidiaries of Sen-Raleigh.

The story of nationalisation in this year would remain incomplete without reference to the case of the nationalisation of Maruti Ltd., which give public sector direct control over a stillborn automobile manufacturing concern sponsored by a man who had become a very important political power centre in the country during 1975-80. After the death of the person who floated this company, the Government decided to take-over this company in order, among things, to enable the government to make use of its infrastructure and to go in for foreign collaboration for manufacturing a small car and give the public sector its first foot-hold in the automobile industry.

II

During the period 1947-80, we find that the total number of enterprises transferred from private to public ownership and control numbered 1517, of these, 404 were the companies or enterprises operating in the financial sector, that is commercial banking and life and general insurance. In the financial sector, public sector acquired a dominant position and it was nationalisation which contributed the most to it. However, the same cannot be said of the non-financial sector, in which a similar dominance still eludes the public sector and which had not seen many nationalisations, particularly of its largest and most important units. Even in the non-financial sector there has been hardly any nationalisation except that of air services. Trading capital too did not attract nationalisations in the usual sense of take-over of private capital (i.e. productive property organised as enterprise), though the right to export and import money commodities was nationalised from time to time as those items were canalised by state trading agencies like the STC. A short-lived, unsuccessful attempt to take-over wholesale trade in wheat was also made.

In the non-financial manufacturing sector, a total of 1113 concerns were compulsorily acquired by the State using various methods. Almost the entire banking sector and life and general insurance in their totality were made

a part of the public sector, with the latter becoming legal public monopolies. In the non-financial sector, the entire civil aviation services and a good deal of shipping tonnage was nationalised along with many ship-building and ship-repairing companies. In the energy sector, with the nationalisation of coal-mines and oil companies engaged in exploration, crude production, refining and distribution, the public sector acquired a really powerful position, because electricity generation already had a very big state presence. Almost total control over coal mining (with distribution remaining in private sector) and production refining and distribution of petroleum products can be regarded as one of the major contributions of nationalisation to the growth of public sector in India.

In terms of number of companies/concerns taken-over the contribution of coal-mines is very large. Out of 1113 non-financial concerns nationalised during the period of our study, coal-mines account for 937 concerns i.e. over 84 percent of all the concerns. Another major area for the use of the tool of nationalisation which reduced the size of private enterprise in any particular branch of industrial activity happened to have concerned the textile industry. About a quarter of the textile industry has been brought under the state ownership and control. It was partly because various public policy interventions could not be

successfully carried on in the face of massive, bunched industrial sickness in this industry and was partly because the private enterpreneurs in the textile industry diverted their interest away from these ageing concerns to more attractive newer industries.

Leaving out the coal mines, textile mills, oil companies, shipping and ship-building companies, the remaining cases of take-over of non-financial concerns by the Government are confined largly to some engineering, jute mills, bicycles manufacturing, pharmaceutical and miscellaneous companies either related to some large public sector undertaking as suppliers or representing some companies which had to be taken-over because joint sector arrangements did not work, or because of some such specific factors.

Thus, overall, the instrument of nationalisation has contributed towards brining some important changes in the composition of the public sector in India. This is confined mainly to the financial sector (along with strengthening the banking sector by reduction of the total number of banks operating in the country) the energy sector and civil aviation services production of copper and a major consumer goods industry viz. the textiles. In the other sectors, only case by case nationalisation of individual companies which ran into trouble and could not be salvaged by

enforcing the provisions of Industrial Development and Regulation Act, or by adopting specific fiscal and financial policies (including that of giving direct financial support by means of various public financial institutions), took place. A large number of engineering companies had to find place in the public sector as a <u>Pinjrapol</u> in the aftermath of the recession of mid-1960s.

Naturally, the overall size of public sector in these industries could not have increased significantly on the basis of such relief and rehabilitation nationalisation. The bunching of industrial sickness in so many companies was partly contributed to by a slow down of the growth of public investment and the consequential slow-down of the flow of orders to these companies which were suppliers to railways, powere plants, coal-mines, defence units and other metal working industries. This process was, to an extent, accelerated by the departure of the erstwhile foreign capital from some of these rather old engineering firms and their sale to India entrepreneurs who indulged in non-industrual practice in order to obtain quick and high returns from their investments. Overall, one can say that the contribution of nationalisation has been fairly significant in giving a good deal of sectoral diversity to India's public sector, particularly in financial (banking and insurance) and energy sector (coal and oil) and

air services, in these activities the public sector come to command nearly the entire business thanks to the additions to public enterprises made by nationalisation. In large-scale steel production, nationalisation State ownership to a large unit, though the process was incomplete as the premier private steel unit TISCO, remained unaffected. In copper, the State obtained total ownership control owing to nationalisation of Indian copper. Similarly with respect to give and lead State ownership became complete with the take-over of Metal Corporation of India. In wagon manufacturing and ship-building, nationalisation give the public sector a good position. In oil, copper and coal and in the case of managing agency conglomerate nationalisation affected foreign capital and enterprise in India.

III

It is not possible to fully estimate the size of the contribution of nationalisation to the growth of public sector in India because we could not get all the financial statistics regarding the companies or concerns affected their nationalisation. Even data on employment in nationalised units was not available for a large number of cases. Hence this important indicator could not because available . However, we could obtain data regarding a fairly large number of companies as is shown below :-

No. of companies concerns for which information was available .

1.	Paid-up capital	986 *
2.	Net-worth	518
3.	Assets	455
4.	Turn-over for financial companies.	403 **
5.	Turn-over for non-financial companies.	61 ***
6.	Compensation/consideration/ amounts paid by the government for take-over.	766

* = A number of coal-mines, insurance units (life and general) were non-corporated entities. Their financial data generally could not be obtained.

** = Not applicable to RBI.

***= Available for only some textile mills and hence excluded from our computations.

It can be seen that while turn-over data was available for practically all the financial companies and for one financial company for which it was not available was the Reserve Bank of India, for which probably, this figure has little relevance. The difficulty in obtaining turn-over data for non-financial companies could have been for many reasons. One a number of concerns were

non-incorporated, particularly coal-mines and their data were not easily available. Infact, except for paid-up capital of 447 coal-mines, we could not obtain other financial statistics regarding taken-over coal-mines. We could not get the data about turn-over of the airlines companies. A number of companies were closed for sometime before they were taken over and in some cases their accounts were in shambles. Such factors limited data availability regarding textile firms. Hence we could not get information about the turn-over of most of the textile mills. There have also been companies which were not quoted on the Stock Exchange and hence details of their financial data could not be obtained from published sources while we did not find it possible to collect this data from individual company accounts published annually. Only in a few cases could we get information regarding the consideration paid for acquiring shares in order to vest a company in the public sector.

Given these limitations we can present here below the financial maghitudes of nationalised companies as under :-

(For details see Table -I, II, IIA, III, IIIA and Table IV).

Sl. No.		Value in Rs.(crores) at respective book values.	Value at 1970-71 prices.
1.	Paid-up capital	505.91	420.13
2.	Net-worth	334.61	329.05
3.	Assets	9878.57	10795.98
4.	Turn-over of financial Companies	11000. 97	10612.70
5.	Turn-over of non-financial Companies.	1324.13	812.16
6.	Compensation/consideration/ Amount	483.97	417.95

A total of 1517 business enterprises were nationalised during 1947-1980. Those enterprises/companies which already had majority shareholding by some government agency, like state government or public financial institutions, or joint ventures of some public and private enterprises but were transferred to the Central government on its agencies have not been considered cases of nationalisation but only internal re-organisation of public enterprises. State Bank of Hyderabad, Kolar Goldmines, Bolani ores, Singarami Colliecy etc. are some of the instances of such internal re-organisation.

In the cases of life and general insurance and coal-mines we also had many non-corporate businesses which were nationalised. It is not very realistic to compare the number of taken-over concerns with that of companies, because the former includes many non-companies.

Ignoring this factor, we find that the share of taken-over companies increased from about one percent upto annual plans of 1968 (owing to very few cases of nationalisation during 1950-1968) to over 3.6 percent at the end of the Fourth Five Year Plan and then again started declining, becoming less than 3 percent at the Janta Plan and at the end of 1980. Number of taken-over companies also started picking up in compassion to the total number of non-government companies during the Fourth Plan period, accounting for about one-eighth at the end of the Fourth Plan.

The share of nationalised companies continued to grow during the Fifth Plan, reaching a level of over 14 percent at the end of the Plan. Afterwards at the end of 1980, it accounted for a little lower share at less than 14 percent. (Table VI). It is not much use to compare the number of taken-over sector companies as a proportion of total government sector companies, because often many nationalised companies were merged into one.

Table I presents an yearly profile of nationalisation along with some financial statistics of the taken-over companies for the year as close to the year of take-over as was possible in each case. These financial

statistics represent book values. We have summed-up these results year-wise in Table II. In Table IIA we show the same data at 1970-71 prices. The base year choice was influenced by the fact that it was fairly close to a large number of nationalisations. The data on assets is not strictly comparable because it refers at times to total assets and at times to fixed assets only. The years in which there took place noticable nationalisations were 1953, 1955, 1956, 1969, 1972 to 1974 and 1980 (Table II and Table IIA).

The growth of nationalisation is shown according to the period of carious plans in Table III (at historical book values) and Table III A (at 1970-71 prices). We find that upto the end of the First Plan, nationalisations were very few, taking a little over one percent of the total in terms of numbers, over 4 percent in terms of PUC (at book values) and at about 13 percent at 1970-71 wholesale prices. In terms of networth, the share of nationalisations was about 6 percent and 16 percent in terms of the two valuations. Owing to the size of the Imperial Bank of India, the take-overs of this period contributed, with nationalisation of just one company, about 0.8 percent and over 2 percent of the total nationalised financial sector turn-over in terms of book values and at 1970-71 prices respectively.

During the Second Five Year Plan, major nationalisation was that of life insurance business, covering about 250 concerns. As a result, this period came to provide over 11 percent and 26 percent of nationalised financial sector turn-over in terms of book values and constant prices respectively and in terms of networth about 10 percent and over 21 percent similarly. (Table III and Table III A).

Since the public sector was not large at the begining of the First Plan (Public utilities like railways were organised as government department), the PUC of nationalised companies came to about 36 percent of the government sector companies. (At the end of the second plan, share of nationalised PUC came down to a little over 5 percent and it continued to decline to reach a level of just over 2 percent at the end of 1968. (Tabel VI). This was so because during this period there was hardly any worthwhile nationalisation while fresh investment in public enterprises incfeased at a rapid pace.

During the Third Plan and three years of holiday from medium-term planning (years of annual plans) there were no overt, publicised nationalisations except silent merger of some smaller, monviable banks with some public sector banks and two cases of war-induced take-over of

a shipyard and a river navigation company. The share of this period in nationalisation is rather marginal.

Since the Fourth and Fifth Plan periods formed the most significant decade from the point of view of nationalisations along with a relative slow-down in the growth of public investment in industries as well as infrastructure, one finds that the paid-up capital of the nationalised companies increased to about 8 percent at the end of the Fourth Plan and was only a little short of 7 percent at the end of the Fifth Plan. The subsequent period did see some progress in the growth of nationalisation but could not maintain the relative position of the nationalised sector vis-a-vis the public sector as a whole. The share in paid-up capital of the productive enterprises transferred to the state sector declined to almost 5 percent by the end of 1980.

At the end of the First Plan, there were 61 government companies with paid-up capital of Rs.66 crores while the number of taken-over companies was 14 with paid-up capital of about Rs24 crores. At this point, the paid-up capital of the corporate sector in the country exceeded Rs.1024 crores while the number of companies was almost 30,000. During the Second Plan Period the number of government companies increased to 142 with their paid-up

capital amounting to Rs.547 crores. During the period of Second Plan, Third Plan and Annual Plans, as can be seen from the figures at the end of the annual plans period the number of government companies went up to 259 with paid-up capital of Rs.1715 crores. The paid-up capital of nationalised companies on the other hand was just about Rs.41 crores. The overall size of public sector in comparison to the corporate sector improved fairly impressively; the paid-up capital of the Government companies was almost half of the paid-up capital of all the companies (Table 5).

As a result of relatively faster growth of nationalisation during the Fourth and Fifth Plan period, we find that at the end of the Fifth Plan, the paid-up capital of the nationalised companies increased from Rs.41 crores at the end of 1968 about Rs.485 crores at the end of the Fifth Plan. The significance of the contribution until 1980 could not grow much as the total paid-up capital of nationalised companies amounted to only a little above Rs.500 crores at book values. In contrast, the government sector grew very rapidly signifying the contribution of fresh investment based public enterprises. At the end of 1980, total paid-up capital of government companies numbering

about 825 was over Rs.9752 crores. Though the total number of companies in the corporate sector had more than doubled in 1980 over 1968, but the relative size of public sector in terms of paid-up capital increased to over 72 percent of the total corporate sector. We have not analysed the relative size of taken-over government and the corporate sector in terms of total capital employed because for the taken-over enterprises, these facts were available rather sparsely.

The contribution made to the growth of the taken-over sector during the Fourth Plan came to about 71 percent of the total during 1947-1980 in terms of number of enterprises, and over 64 percent and about 34 percent in terms of PUC and networth. At 1970-71 prices, the PUC and net worth contribution during the Fourth Plan period comes to over 62 percent and 84 percent respectively. In fact, the management take-over of 103 textile mills also took place during the Fourth Plan period, though it was clinched during the Fifth Plan period. Since major commercial banks were acquired by the government during the Fourth Plan period, the period contributed about two-thirds of total nationalised financial sector turn-over. Has the turn-over data for the coalmines been available, this period would have been seen to have contributed the bulk of non-financial nationalised sector's turn-over as well.

The process of take-over spilled over into the Fifth Plan period as well making the period 1969-1977 the golden age of Indian Nationalisations. The Fifth Plan accounted for about 16 percent and 23 percent of the PUC and networth (at constant prices) of all nationalisations and about 22 and 49 percent of PUC and net-woth respectively at book values. Since other data about non-financial sector take-over were not available, this period is seem to have contributed about 88 percent of total non-financial nationalised turn-over. However, since many of the units taken-over were sick ones, the share of these take-overs in assets was hardly worth writing home about.

As far as nationalisations are concerned, the Janta interlude was a non-event. The first year of the Sixth Plan 1980 saw nationalisations make modest contribution both in financial sector and non-financial sector, particularly by entering jute industry. Table IV gives a picture of the magnitude of take-overs by cumulating the figures at the end of various plan periods. The nationalised sector remained as seen above a rather small part of both the public sector as a whole and of the corporate sector.

TABLE I

PROFILE OF NATIONALISATION IN INDIA (Figures in Rs.crores)
(at historical book values)

Year	Unit taken over	Paid-up Capital	Net worth	Assets	Turnover Financial	Turnover Non-Fiancial	Compensation or value of shares
1948	Reserve Bank of India	5.00	10.00	1351.09	N.A.	-	5.93
Total	I(NF)	5.00	10.00	1351.09	N.A.	-	5.93
1952	Vizag Shipyard	6.75	N.A.	12.9897	-	9.2849	2.72
Total	I (NF)	6.75	N.A.	12.9897	-	9.2849	2.72
1953	Air India International Ltd.	1.20	N.A.	0.2986	-	N.A.	
	Air ways (India) Ltd.	0.2124	N.A.	0.2973	-	N.A.	
	Himalaya Aviation Ltd.	0.10	N.A.	0.1359	-	N.A.	
	Kalinga Airways Ltd.	N.A.	N.A.	N.A.	-	N.A.	
	Air India Ltd.	1.4997	N.A.	1.4594	-	N.A.	6.0119
	Air Service of India Ltd.	0.9079	N.A.	0.2595	-	N.A.	
	Deccan Fairway Ltd.	0.4285	N.A.	0.3917	-	N.A.	
	Bharat Airways Ltd.	0.80	N.A.	0.6619	-	N.A.	
	Indian National Airways Ltd.	0.8871	N.A.	0.7759	-	N.A.	

(Contd...)

(Table I Contd. . .)

	Nahan Foundry	0.40	N.A.	N.A.	-	N.A.	0.30
Total	10 (NF)	6.4356	N.A.	4.2802	-	N.A.	6.3119
1955	Imperial Bank of India	5.63	12.00	241.36	87.95	-	19.7188
	*Hindustan Housing Factory Ltd.	0.01	N.A.	0.0161	-	0.1854	N.A.
Total	2 (IF + INF)	5.64	12.00	241.3761	87.95	0.1854	19. 7188
1956	Life Insurance Companies (245)	1.4858	24.2685	411.00	1250	-	5.2146
Total	245 (F)	1.4858	24.2685	411.00	1250	-	5.2146
1960	Mazagon Dock Ltd.	0.6300	0.6931	0.2800	-	2.5124	-
	Magul Line Ltd.	1.0119	1.8119	1.0142	-	1.8642	-
	Garden Reach Workshop	0.7000	1.7902	0.5837	-	1.1557	-
	State Bank of Bikanev	0.5	0.77	13.1634	7.9606	-	0.725
	State Bank of Jaipur	0.5	0.755	9.9658	4.4064	-	0.40
	State Bank of Indore	0.153	0.443	9.0434	5.4945	-	0.6033
	State Bank of Travancore	1.00	1.2972	6.9708	3.5614	-	1.366
	State Bank of Mysore	0.50	1.50	19.5659	11.4702	-	1.80
Total	8 (3 NF + 5 F)	4.9949	9.0604	60.5872	32.8931	5.5323	4.8943

(Contd. . .)

(Table I Contd. . .)

1961	Banks of Bagholkhand	0.0575	0.0723	1.1405	0.1407	-	N.A
	Mayurbhanj State Bank	N.A.	N.A.	0.5374	0.0746	-	0.2834
	Travancore Forward Bank Ltd.	0.15	0.2250	4.5934	2.6331	-	Nil
	Kottayam Orient Bank Ltd.	0.118	0.1724	4.2548	2.2552	-	Nil
	Bank of New India Ltd.	0.055	0.0722	1.3126	0.7213	-	0.012195
Total	5 (F)	0.3805	0.5419	11.8387	5.8249	-	0.295595
1962	Bhor State Bank Ltd.	0.025	0.0304	0.2029	0.072	-	0.03
	Unity Bank Ltd.	0.0050	0.012	0.0984	0.0263	-	Nil
	Bank of Dewas Ltd.	0.0295	0.0529	0.3456	0.1658	-	0.0167
	Estakeions Navais Do Goa	0.6007	0.6047	0.3454	-	0.001467	N.A.
Total	3 F + 1 NF 4 + (F) + I NF	0.6602	0.7000	0.9923	0.2641	0.001467	0.0467
1963	Ramdurg Bank Ltd.	0.0107	0.0151	0.046	0.0232	-	N.A.
	Vasudeva Vilasam Bank (P) Ltd.	0.0080	0.0096	0.0721	0.0236	-	0.09308
	Bank of Aundh Ltd.	0.0171	0.0245	N.A.	0.0453	-	N.A.
Total	3 (F)	0.0358	0.0492	0.1181	0.0921	-	0.09308

(Contd. .

(Table I Contd. . .)

1964	Cochin Nayar Bank Ltd.	0.0494	0.0692	1.5843	0.5853	-	N.A.
	Latin Christan Bank Ltd.	0.0156	0.0208	0.4384	0.1141	-	N.A.
	Champakulam Catholic Bank Ltd.	0.0038	0.0063	0.0316	0.011	-	0.007003
Total	3 (F)	0.0688	0.0963	2.0543	0.7104	-	0.007003
1965	Malnad Bank Ltd.	0.0157	0.0192	0.1282	0.0241	-	N.A.
	Cheldean Syrian Bank Ltd.	0.0446	0.0929	1.674	0.4929	-	N.A.
	Allahabad Trading & Banking Corporation Ltd.	0.0020	0.0165	0.1327	0.0806	-	0.0238
	Govinda Bank Ltd.	0.0293	0.0418	0.1946	0.0695	-	0.04055
	River Steam Navigation Co.Ltd.	9.7136	N.A.	(-)3.1574	-	N.A.	N.A.
Total	5 '4 (F) + 1 (NF)'	9.8052	0.1704	(-)1.0279	0.6671	-	0.06435
1966	The New Fund Bwiner of Himalaya Bank Ltd.	0.0234	0.0616	0.1311	0.0583	-	Nil
Total	1 (F)	0.0234	0.0616	0.1311	0.0583	-	Nil
1967	Bengal Duars Bank Ltd.	0.0085	0.0102	0.0446	0.0127	-	0.0079
	Raikut Industrual Bank Ltd.	0.0073	N.A.	0.0203	0.0043	-	0.0015
	Kamala Bank Ltd.	0.0041	0.0097	0.0243	0.014	-	0.0010

(Contd. .

(Table I Contd. . .)

	Bank of Alwaye Ltd.	0.0100	0.0287	N.A.	0.0160	-	0.29755
Total	4 (F)	0.0299	0.0486	0.0892	0.047	-	0.30795
1968	Amrit Bank Ltd.	0.0300	0.0564	N.A.	0.2493	-	N.A.
Total	1 (F)	0.0300	0.0564	N.A.	0.2493	-	N.A.
1969	Bank of Behar Ltd.	0.3512	0.65	N.A.	7.3563	-	N.A.
	Allahabad Bank	1.05	2.6646	152.6369	85.1315	-	3.10
	Bank of Baroda	2.50	5.9524	451.0773	233.8149	-	8.40
	Bank of India	4.05	10.8516	521.9855	295.6751	-	14.70
	Bank of Maharashtra	1.4869	2.0902	112.7774	64.582	-	2.30
	Canara Bank	1.75	3.5703	236.2927	125.4693	-	3.60
	Central Bank of India	4.7515	12.6349	615.5070	351.2176	-	17.50
	Dena Bank	1.25	3.0244	174.1713	85.8692	-	3.60
	Indian Bank	0.8867	2.0713	114.3323	64.9031	-	2.30
	Indian Overseas Bank	1.0	2.2109	117.9906	56.2290	-	2.50

(Contd. . .)

(Table I Contd. . .)

1972	Richardson & Cruddas Ltd.	1.00	N.A.	1.2242	-	4.1674	0.30
	Indian Copper Corpn. Ltd.	4.60	0.6509	28.00	-	0.6937	11.50
	Balner Lawne Ltd.	1.4405	2.5912	0.4408	-	5.5039	N.A.
	Biecco lawne Ltd.	0.3250	0.4986	0.5160	-	2.9488	N.A.
	Steel Containers Ltd.	0.21	0.5945	0.176	-	2.9546	N.A.
	Bridge & Roof Co. (Pvt.) Ltd.	0.36	1.1436	0.3524	-	5.2050	N.A.
	Industrial containers Ltd.	0.18	0.3339	0.0743	-	1.1345	N.A.
	Coking Coal Mines (226)	-	-	-	-	-	17.5897
Total	233 (NF)	8.1155	5.8127	30.7837	-	22.6079	29.3897
1973	The Konkan Passenger Ship Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	0.90
	Alcock. Ashdown & Co. Ltd.	0.8349	0.8677	0.5703	-	2.8523	1.0
	Jessop & Co. Ltd.	2.24	-7.1406	5.8158	-	21.3752	N.A.
	Metal Scrap Trading Corpn. Ltd.	0.209	0.2161	0.0045	-	N.A.	1.98
	Coal Mines (711)	270.27	N.A.	N.A.	-	N.A.	30.34
	General Insurance Companies (107)	13.5557	25.9597	366.7788	6425.00	-	68.4009
Total	822 (107 F + 715 NF)	287.1006	19.9029	373.1691	6425.00	24.2275	102.6209

(Contd. . .)

(Table I Contd. . .)

1974	Indian Oil Blending Co.	0.40	0.7916	0.9877	-	0.9168	N.A.
	Esso Standard Repning Co. Esso Eastern Inc. Ltd.	10.75	36.922	31.7964	-	367.7491	2.59
	Lube India Ltd.	4.8	11.33	N.A.	-	24.05	N.A.
	Andew Yule & Co.	2.96	1.9229	1.3453	-	4.4957	N.A.
	Mandya National Paper Mills	2.0273	N.A.	4.6177	-	2.3551	N.A.
	Sick Textile Mills (103)	27.6324	-28.4201	N.A.	-	N.A.	N.A.
Total		48.5697	22.5464	38.7471	-	399.5667	41.7713
1975	Indian Fire Brick & Insulation Co. Ltd.	1.4967	N.A.	1.3735	-	0.0188	N.A.
Total	I (NF)	1.4967	N.A.	1.3735	-	0.0188	N.A.
1976	Burma Shell Co. Ltd.	14.5358	15.7945	21.1811	-	552.0938	27.75
	Braithwaite & Co. Ltd.	2.00	2.66	2.60	-	12.2308	16.25
	Burn & Co. Ltd.	3.64	3.9345	2.2948	-	8.5481	13.88
	Indian standard wapon Co. Ltd.	1.763	1.7651	0.4295	-	0.6579	11.35
	IISCO	27.5813	52.0571	66.3252	-	134.9952	7.4395
	Metal Corporation of India Ltd.	2.4664	3.1563	0.347	-	N.A.	1.98

(Contd. . .)

(Table I Contd. . .)

	Assam Silliminate Ltd.	0.69	1.8399	3.2566	-	0.2742	1.0717
Total	7 (NF)	52.679	81.2074	96.4342	-	708.80	79.5212
1977	Caltex Oil refining Ltd. The Caltex (India) Ltd.	10.50	29.1373	40.94	-	61.4523	13.00
	Smith Stanistreet & Co. Ltd.	0.4347	0.4486	0.1236	-	1.1328	3.0074
	Greshan Cavern of India Ltd.	0.0933	N.A.	1.2057	-	N.A.	1.76
Total	4 (NF)	11.0280	29.5859	42.2693	-	62.5851	17.7674
1978	Hindustan Tractors Ltd.	1.00	1.1233	1.9295	-	8.473	1.50
	Brittania Engineering	N.A.	N.A.	N.A.	-	N.A.	1.5285
	Arthur Butler & Co.	0.103	0.3246	0.3263	-	0.8612	1.377
	IISCO Stanton Pipe & Foundry Ltd. Co.	3.0	6.5198	2.5368	-	6.0936	N.A.
	Lagan Jute Machinery Ltd.Co.	1.65	N.A.	2.42	-	N.A.	N.A.
Total	5 (NF)	5.753	7.9677	7.2124	-	15.4278	4.4055
1978	Hindustan Tractors Ltd.	1.00	1.1233	1.9295	-	8.473	1.50
	Brittania Engineering Works Ltd.	N.A.	N.A.	N.A.	-	N.A.	1.5285
	Arthur Butler & Co.	0.103	0.3246	0.3263	-	0.8612	1.377
	IISCO Stanton Pipe & Foundry Ltd. Co.	3.0	6.5198	2.5368	-	6.0936	N.A.

(Cont . .)

(Table I Cintd...)

	Lagan Jute Machinery Ltd. Co.	1.65	N.A.	2.42	-	N.A.	N.A.
Total	5 (NF)	5.753	7.9677	7.2124	-	15.4278	4.4055
1980	Andhra Bank	1.00	5.0015	866.0920	270.1086	-	6.10
	Corporation Bank	1.00	2.4273	367.1563	111.4653	-	1.80
	New Bank of India	0.7560	4.4587	529.0489	200.2980	-	5.10
	Oriental Bank of Commerce	0.2184	1.3394	324.9972	115.5966	-	1.00
	Punjab & Sind Bank	0.8904	2.3506	663.0775	242.1384	-	2.10
	Vijaya Bank	1.1764	3.0399	493.0566	181.3849	-	2.40
	Maruti Ltd.	2.64	-	6.84	-	N.A.	4.34
	Hind Cycles Ltd.	0.6857	0.7766	0.7946	-	0.1911	2.418
	Sen-Releigh Ltd.	1.65	0.3175	1.2189	-	3.3624	7.08
	Bird & Co. Ltd.	0.7051	0.7812	7.847	-	4.28	2.83
	Bengal Chemical & Pharmaceuticals Ltd.	0.7995	1.5517	2.4374	-	5.758	5.0204
	The National Company Ltd.	0.9333	1.7957	3.3725	-	24.1013	10.04
	Alernandra Jute Mills Ltd.	0.27	-	-	-	-	3.536
	Union Jute Company Ltd.	0.4199	-	-	-	-	4.6132

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(Table I Cintd...)

	The Khardah Co. Ltd.	0.765	-	-	-	-	4.8668
	The Kinniron Jute Mills Co.Ltd.	0.7498	-	-	-	-	6.447
	RSHM Jute Mills Pvt. Ltd.	-	-	-	-	-	0.1704
	Sent Pandit Industries Pvt. Ltd.	0.4965	-	-	-	-	0.2396
	Ancillary Industries Pvt. Ltd.	0.01	-	-	-	-	0.0131
	Ancillary Industries (Forging) Pvt. Ltd.	0.01	-	-	-	-	0.0144
	Ancillary Industries Crank Pvt. Ltd.	0.0094	-	-	-	-	0.0233
	Naokhal Machine Toole Ltd.	0.0846	-	-	-	-	0.0287
Total	22 (6F + 16 NF)	15.27	23.8401	3265.9389	1120.9918	37.6928	70.1665

* Management take-over compensation excluded.

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(Table I Contd. . .)

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6. Commerce Year Book of Public Sector, Bombay, for many years.

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13. Reports of Committee on companies investigated under Industrial Development & Regulation Act, Department of Company affairs, Government of India, New Delhi.

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15. Directory of Companies, Indian Chamber of Commerce, Calcutta (For details see the chapter methodology and sources of data).

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COVERAGE OF DATA IN TABLE - I

Year	Name & Number of units	Paid-up capital	Net worth	Assets	Turn-over: Financial	Turn-over: Non-financial	Compensation
		(Data available for)					
1948	Reserve Bank of India (IF)	1	1	1	N.A.	-	1
1952	Vizag Shipyard (INF)	1	N.A.	1	-	1	1
1953	9 Air Corporations (9NF)	8 (Data N.A. for Kalinga Airwayes Ltd.	N.A.	8 (Not Available for Kalinga Airways Ltd. N.A.	-	N.A.	8 (N.A. for Himalaya Aviation Ltd.).
	Nation Foundry (INF)	1	N.A.	N.A	N.A.	N.A.	N.A.
1955	Imperial Bank of India (IF)	1	1	1	1	-	1
	Hindustan Housing Factory Ltd.	1	N.A.	1	-	1	N.A.
1956	Life Insurance Companies (245F)	245	245	243	243	-	245
1960	Mazagon Dach Ltd. (INF)	1	1	1	-	1	N.A.
	Mogul Line Ltd. (INF)	1	1	1	-	1	N.A.
	Garden Reach Workshop (INF)	1	1	1	-	-	1
	State Bank of Bihaner (IF)	1	1	1	1	-	1
	State Bank of Jaipur (IF)	1	1	1	1	-	1
	State Bank of Indore (IF)	1	1	1	1	-	1

(Contd. . .)

(Table I Contd. . .)

	State Bank of Travancore (IF)	1	1	1	1	-	1
1960	State Bank of Mysore (IF)	1	1	1	1	-	N.A.
1961	Bank of Bopal (F)	1	1	1	1	-	1
	Mayurbanj State Bank (IF)	N.A	N.A.	1	1	-	1
	Travancore Forward Bank Ltd. (IF)	1	1	1	1	-	1
	Kottayam Orient Bank Ltd.(IF)	1	1	1	1	-	1
	Bank of New India Ltd. (IF)	1	1	1	1	-	1
1962	Bhor State Bank Ltd. (IF)	1	1	1	1	-	1
	Unity Bank Ltd. (IF)	1	1	1	1	-	1
	Bank of Dewas Ltd. (IF)	1	1	1	1	-	1
	Estalcipra Novais Do Goa (IF)	1	1	1	1	-	N.A.
1963	Ramdurg Bank Ltd. (IF)	1	1	1	1	-	N.A.
	Varudeva vilaram Bank Ltd.(IF)	1	1	1	1	-	1
	Bank of Aundh Ltd. (IF)	1	1	N.A.	1	-	N.A.
1964	Cochin Nayar Bank Ltd. (IF)	1	1	1	1	-	N.A.

(Contd...)

(Table I Contd. . .)

	Latin Chnshan Bank Ltd. (IF)	1	1	1	1	1	N.A.
	Champakulam Catholic Bank Ltd. (IF)	1	1	1	1	1	1
1965	Malnad Bank Ltd. (IF)	1	1	1	1	-	N.A.
	Choldean Syrian Bank Ltd. (IF)	1	1	1	1	-	N.A.
	Allahabad Trading & Banking Corpn. Ltd. (IF)	1	1	1	1	-	1
	Govinda Bank Ltd. (IF)	1	1	1	1	-	1
	Rives Steam Nanpation (INF)	1	N.A.	1	-	N.A.	N.A.
1966	The New Fund Bul Himalaya Bank Ltd. (IF)	1	1	1	1	-	1
1967	Bengal Duaro Bank Ltd. (IF)	1	1	1	1	-	1
	Raihut Industrual Bank Ltd. (IF)	1	N.A.	1	1	-	1
	Kamala Bank Ltd. (IF)	1	1	1	1	-	1
	Bank of Alwaya Ltd. (IF)	1	1	N.A.	1	-	1
1968	Amrit Bank Ltd. (IF)	1	1	N.A.	1	-	N.A.
1969	Bank of Behar Ltd. (IF)	1	1	N.A.	1	-	N.A.
	Bank (14F)	14	14	14	14	-	14

(Cont'. . .)

(Table I Contd. . .)

	Tannory & Footwear Corpn. Ltd. (INF)	1	N.A.	1	1	1	N.A.
1970	National Bank of Lahore Ltd.(IF)	1	1	1	-	1	N.A.
1971	Eastern Bank Ltd. (IF)	1	1	N.A.	1	-	N.A.
	Jayanh Shipping Co. Ltd. (INF)	1	1	1	-	1	1
	Assam Refractoors Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
1972	Richardont Cruddar Ltd. (INF)	1	N.A.	1	-	1	1
	Indian Copper Corpn. Ltd.(INF)	1	1	1	-	1	1
	Balmor Lawrine Ltd. (INF)	1	1	1	-	1	N.A.
	Biocco Lawne Ltd. (INF)	1	1	1	-	1	N.A.
	Steel Container Ltd. (INF)	1	1	1	-	1	N.A.
	Bridge & Roof Co. (Pvt) Ltd. (INF)	1	1	1	-	1	N.A.
	Industrial Container Ltd.(INF)	1	1	1	-	1	N.A.
	Cohing Coal Miner (22NF)	*	-	N.A.	-	N.A.	226
1973	The Konhan Paucryer Shipe Ltd. (INF)	N.A.	N.A.	N.A.	-	N.A.	1
	Alooch,Ashown & Co. Ltd.(INF)	1	1	1	-	1	1

(Contd. . .)

(Table I Contd. . .)

	Jesseop & Co. Ltd. (INF)	1	1	1	+	1	N.A.
	Metal Scrap Trading Corpn. Ltd. (INF)	1	1	1	-	N.A.	1
1973	Coal Miner (711 NF)	Out of 937 coal Miner taken over gurl 1972 + 1973,PVC fig. for 417 are available is included in 1973 data.	N.A.	N.A.	-	N.A.	Rs.6 crores was pa[i] saparately by way of Management com[p]ensation. Lokasa[bha] Debate speech by Somnath Chatterje[e] 29-5-1972.
	General Insurance Companies Ltd.	107	107	107	-	N.A.	107
1974	Indian Oil Blending Co.(INF)	1	1	1	-	1	N.A.
	Esso Standard Refining Co.(INF)	1	1	1	-	1	1
	Lube India Ltd. (INF)	1	1	N.A.	-	1	N.A.
	Andrew Yule & Co. (INF)	1	1	1	-	1	N.A.
	Mandya National Paper Mills (INF)	1	N.A.	1	-	1	N.A.
	Sick Tenble Mills (103 NF)	95	59	N.A.	-	1	103

(21 unite having partive Net worth Fogs).

(Contd. . .)

(Table I Contd. . .)

1975	Indian Frabric & Insulation Co. Ltd. (INF)	1	N.A.	1	-	1	N.A.
1976	Burma Shell Co. Ltd. (INF)	1	1	1	-	1	1
	Braitn waite & Co. Ltd. (INF)	1	1	1	-	1	1
	Burn & Co. Ltd. (INF)	1	1	1	-	1	1
	Indian Standard Wapon Co. Ltd. (INF)	1	1	1	-	1	1
	I.I.S.C.O. (INF)	1	1	1	-	1	1
	Metal Corpn. of India Ltd. (INF)	1	1	1	-	1	1
	Assam Sillinato Ltd. (INF)	1	1	1	-	1	1
1977	Catex Oil Refine Ltd. (INF)	1	1	1	-	1	1
	The Caltex (India) Ltd. (INF)	1	1	1	-	1	1
	Smith Stanistreet & Co. Ltd. (INF)	1	1	1	-	1	1
	Graham Caven of India Ltd. (INF)	1	N.A.	1	-	N.A.	1
	Hindustan Tractors Ltd. (INF)	1	1	1	-	1	1
	Brittannia Engineering Works Ltd. (INF)	N.A.	N.A.	N.A.	-	N.A.	1
	Artnur Bulter & Co. (INF)	1	1	1	-	1	1

(Contd. . .)

(Table I Contd. . .)

	I.I.S.C.O. Stanton Pipe & Foundary Ltd. Co. (I NF)	-	1	1	-	1	N.A.
1977	Logan Jute Machinery Ltd.	1	N.A.	1	-	N.A.	N.A.
1980	Bank (6 F)	6	6	6	6	-	6
	Maruthi Ltd. (INF)	1	N.A.	1	-	N.A.	1
	Hind Cycler Ltd. (INF)	1	1	1	-	1	1
	Sen-Raleph Ltd. (INF)	1	1	1	-	1	1
	Bind & Co. Ltd. (INF)	1	1	1	-	1	1
	Hengal Chemichal & Pharmacutical Ltd. (INF)	1	1	1	-	1	1
	The National Company Ltd. (INF)	1	1	1	-	1	1
	Alexandra Jute Mills Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
	Union Jute Co. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
	Bekhardah Co. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
	The Kinnicon Jute Mill Co. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
	RBHM Jute Mill Ltd. (INF)	N.A.	N.A.	N.A.	-	N.A.	1
	Sen & Pandit Industries Pvt. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1

(Contd. . .)

Ancilary Lugs Pvt. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
Ancillary Industries Foreign Pvt. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
Ancillary Industries Cranhi Pvt. Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
Naobhal, Machine Tools Ltd. (INF)	1	N.A.	N.A.	-	N.A.	1
	986	518	455	403	61	766

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TABLE -2

YEARLY GROWTH OF NATIONALISATION IN INDIA (Figures in Rs. crores)

Total/ Year	Unit taken over	(at book values) Paid-up capital	Net worth	Assets	Turn-over Financial	Turn-over Non-financial	Compensation or value of shares
1948	1 (F)	5.00	10.00	1351.09	N.A.	-	5.93
1952	1 (NF)	6.75	N.A.	12.9897	-	9.2849	2.72
1953	10 (NF)	6.4356	N.A.	4.2802	-	N.A.	6.3119
1955	2 (IF + INF)	5.64	12.00	241.3761	87.95	0.1854	19.7188
1956	245 (F)	1.4858	24.2685	411.00	1250	-	5.2146
1960	8 (3 NF + 5 F)	4.9949	9.0604	60.5872	32.8931	5.5323	4.8943
1961	5 (F)	0.3805	0.5419	11.8387	5.8249	-	0.295695
1962	4 (3 F + 1 NF)	0.6602	0.700	0.9923	0.2641	0.001467	0.0467
1963	3 (F)	0.0358	0.0492	0.1181	0.0921	-	0.09308
1964	3 (F)	0.0688	0.0963	2.0543	0.7104	-	0.007003
1965	5 (4 F + 1 NF)	9.8052	0.1704	-1.0279	0.6671	-	0.06435
1966	1 (F))	0.0234	0.0616	0.1311	0.0583	-	Nil
1967	4 (F)	0.0299	0.0486	0.0892	0.047	-	0.30795
1968	1(F)	0.0300	0.0564	N.A.	0.2493	-	N.A.
1969	16(15 F + 1 NF)	29.3837	69.9251	3896.1039	2069.0348	0.4565	87.4

(Contd. . .)

(Table 2 Contd. . .)

1970	2 (IF + 1 NF)	1.65	3.6109	1.0315	2.8456	22.8217	N.A.
1971	3 (1F + 2 NF)	3.5282	14.1563	29.9861	4.3414	14.9179	5.31
1972	233 (NF)	8.1155	5.8127	30.7837	-	22.6079	29.3897
1973	822 (107 F + 715NF)	287.1006	19.9029	373.1691	6425.00	24.2275	102.6209
1974	109 (NF)	48.5697	22.5464	38.7471	-	399.5667	41.7713
1975	1 (NF)	1.4967	N.A.	1.3735	-	0.0188	N.A.
1976	7 (NF)	52.679	81.2074	96.4342	-	708.80	79.5212
1977	4 (NF)	11.0280	29.5859	42.2693	-	62.5851	17.7674
1978	5 (NF)	5.753	7.9677	7.2124	-	15.4278	4.4055
1980	22 (6F + 16 NF)	15.27	23.8401	3265.9389	1120.9918	37.6928	70.1809
TOTAL	1517 (404 F + 1113 NF)	505.9145	334.6087	9878.5687	11000.969	1324.1267	483.9683

TABLE 2A

GROWTH OF NATIONALISATION IN INDIA

(Figures in Rs. crores)
(at 1970-71 wholesale prices)

Year Total	Unit taken over	Paid-up capital	Net worth	Assets	Turn-over Financial	Turn-over Non-financial	Compensation or value of shares.
1948 Total	1 (NF)	11.737	23.474	3171.57	N.A.	-	13.92
1952	1 (NF)	15.067	N.A.	28.99	-	20.725	6.07
1953	10 (NF)	13.7807	N.A.	9.163	-	N.A	13.5158
1955	2 (IF + 1 NF)	13.9604	29.70	597.465	217.698	0.4589	48.80
1956	245 (F)	3.2799	53.573	907.28	2759.38	-	11.511
1960	8 (5F + 3 NF)	9.2157	16.717	111.7845	60.6884	10.2071	9.0301
1961	5 (F)	0.6852	0.9752	21.33	10.4935	-	0.5325
1962	4 (3F + 1 NF)	1.1481	1.2172	1.7247	0.4592	0.0025	0.0812
1963	3 (F)	0.0599	0.0825	0.198	0.1544	-	0.156
1964	3 (F)	0.1045	0.146	3.121	1.0796	-	0.0106
1965	5 (4F + 1NF)	13.7716	0.2379	-1.4445	0.9366	N.A.	0.0812
1966	1 (F)	0.029	0.077	0.1645	0.073	-	Nil

(Contd. . .)

(Table 24 Contd. . .)

1967	1 (F)	0.0325	0.0528	0.097	0.0509	-	0.3358
1968	1 (F)	0.033	0.0617	N.A.	0.273	-	N.A.
1969	16 (15F + 1NF)	31.5275	75.026	4180.369	2219.9944	0.4898	93.7768
1970	2 (IF + 1 NF)	1.6664	3.6518	1.0419	2.8743	23.0522	N.A.
1971	3 (IF + 2 NF)	3.3599	13.482	28.5581	4.1346	14.2075	5.057
1972	233 (NF)	7.1819	5.1437	27.2422	-	20.007	26.008
1973	822 (107F + 715NF)	218.1583	15.123	283.5624	4882.22	18.4099	77.9781
1974	109 (NF)	28.7055	13.3253	22.90	-	236.1595	24.687
1975	1 (NF)	0.8513	N.A.	0.7813	-	0.0107	N.A.
1976	7 (NF)	30.5562	47.1033	55.936	-	411.1369	46.1260
1977	4 (NF)	5.9481	15.9579	22.799	-	33.7567	9.583
1978	5 (NF)	3.1114	4.309	3.9007	-	8.3439	2.3826
1980	22 (6F + 16NF)	6.1597	9.6168	1317.4421	452.195	15.205	28.3032
		420.1274	329.0541	10796.9759	10612.7049	812.1636	417.9459

TABLE 3

GROWTH OF NATIONALISATION : PLAN-WISE (FIGURES IN Rs.CRORES)
(at book values)

Plan	No. of unit taken-over	Paid-up capital	Net worth	Assets	Turn-over Financial	Turn-over Non-financial	Compen-sation
Pre-Plan (1947-50)	1 (F) (0.066)	5.00 (0.99)	10.00 (2.98)	1351.09 (13.71)	N.A N.A	- (-)	5.93 (1.22)
First Plan (1951-55)	13 (IF + 12NF) (0.86)	18.8256 (3.57)	12.00 (3.57)	258.646 (2.63)	87.95 (0.8)	9.4703 (0.71)	28.7507 (5.88)
Second Plan (1956-60)	253 (250F + 3NF) 16.65)	6.4807 (1.28)	33.3289 (9.93)	471.5872 (4.78)	1282.8931 (11.7)	5.5323 (0.42)	10.1089 (2.1)
Third Plan (1961-65)	20 (18'F' +2NF) (1.32)	10.9505 (2.17)	1.5578 (0.47)	13.9755 (0.142)	7.5586 (0.068)	0.001467 (0.0001)	0.506728 (0.105)
Annual Plan (1966-68)	6F (0.4)	0.0833 0.017	0.1666 (0.05)	0.2203 (0.042)	0.3546 (0.003)	(-) (-)	0.30795 (0.06)
Fourth Plan (1969-73)	1076 (124F+ 952 NF) (70.84)	329.7770 (64.48)	113.4079 (33.79)	4331.0743 (43.68)	8501.2218 (77.3)	85.0315 (6.4)	224.7206 (46.43)
Fifth Plan (1974-77)	121(NF) (7.96)	113.7734 (22.54)	133.3397 (39.73)	178.8241 (1.82)	- (-)	1170.9706 (87.98)	139.599 (28.78)

(Contd. . .)

(Table 3 Contd. . .)

Sixth Plan (Janata) (1978	5 (NF) (0.46)	5.753 (1.76)	7.9677 (2.37)	7.2124 (0.1)	- (-)	15.4278 (1.66)	4.4055 (0.91)
Sixth Plan upto 1980 only)	22 (6 F + 16 NF) (1.45)	15.27 (3.02)	23.8401 (7.10)	3265.9389 (30.24)	1120.9918 (10.2)	37.6928 (2.83)	70.1809 (14.52)

Note :- (Figures in parenthesis indicate percentage share of respective column totals).

TABLE 3 A

GROWTH OF NATIONALISATION IN INDIA A PLAN WISE EXPRESSED IN 1970-71 WHOLESALE PRICES (Figures in Rs. crores)

Year/ Total.	No. of units taken over	Paid-up capital	Net worth	Assets	Financial	Non-financial	Compensation of value of shares
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Pre-Plan (1947-1950)	1 (F) (0.07)	11.737 (2.79)	23.474 (7.13)	3171.57 (29.38)	N.A.	-	13.93 (3.33)
2. First Plan (1951-55)	13(IF+12NF) (0.86)	42.8081 (10.19)	29.70 (9.03)	635.618 (5.89)	217.698 (2.05)	20.1839 (2.49)	68.385 (16.36)
3. Second Plan (1956-60)	253(250 F+ 3NF) (16.65)	12.4956 (2.97)	70.290 (21.36)	1019.0645 (9.44)	2820.0644 (26.57)	10.2071 (1.26)	20.5411 (4.91)
4. Third Plan (1961-1965)	20(18F+2NF) (1.32)	15.7693 (3.75)	2.6558 (0.81)	24.9292 (0.23)	13.1233 (0.12)	0.0025 (0.0003)	0.8615 (0.21)
5. Annual Plan (1966-68)	6 (F) (0.40)	0.0945 (0.02)	0.1915 (0.06)	0.2615 (0.002)	0.3969 (0.004)	-	0.3358 (0.08)
6. Fourth Plan (1969-1973)	1076(124 F+ 952 NF) (70.93)	261.894 (62.34)	112.4265 (84.17)	4520.7736 (41.88)	7109.2233 (66.99)	76.1564 (9.38)	202.8199 (48.53)
7. Fifth Plan (1974-77)	121(NF) (7.98)	66.0611 (15.72)	76.3865 (23.21)	102.4168 (0.95)	-	681.0638 (83.86)	80.396 (19.24)
8. Sixth Plan (Janta) 1978	5 (NF) (0.33)	3.1114 (0.74)	4.309 (1.31)	3.9007 (0.04)	-	8.3439 (1.03)	2.3826 (0.57)
9. Sixth Plan (1980)	22(6F+16NF) (1.45)	6.1597 (1.47)	9.6168 (2.92)	1317.4421 (12.20)	452.195 (4.26)	15.205 (1.87)	28.3032 (6.77)
TOTAL	11517	420.1274	329.0541	10795.9759	10612.7049	812.1636	417.9459

Note:- Figures in parenthis are the percentage shares of respective individual plans.

TABLE 4

CUMULATIVE GROWTH OF NATIONALISATION AT THE END OF SUCCESSIVE PLANS

(Rs. Crores)
(at book values)

At the end of year	No. of units	Paid-up capital	Net worth	Assets	Turn-overs Financial	Turn-overs Non-financial	Compensation/ consideration.
1950	IF	5.00	10.00	1351.09	-	-	5.93
1955 1st Plan	14 (2F, 12NF)	23.83	22.00	1609.74	87.95	9.47	34.68
1960 IInd Plan	267 (252F, 15NF)	30.31	55.33	2081.32	1370.84	15.003	44.79
1965 IIIrd Plan	287	41.26	56.28	2095.30	1378.40	15.004	45.30
1968 Annual	293 (276F) (17NF)	41.34	57.05	2095.52	1378.76	15.004	45.60
1973 IVth Plan	1369 (400F, 969 NF)	371.12	170.46	6426.59	9879.98	100.04	270.33
1977 Vth Plan	1490 (400F, 1090NF)	484.89	300.80	6605.42	9879.98	1271.00	409.39
1978 Janta Plan	1495	490.64	311.77	6612.63	9879.98	1286.43	413.79
1980 1st Year of IVth [illegible]	1517 (406F, 1113 NF).	505.91	335.61	9878.57	11000.97	1324.13	483.97

TABLE 5

COMPARATIVE POSITION OF CORPORATE SECTOR AND TAKEN-OVER SECTOR (In absolute terms)

Year/ Plan	All companies Number	All companies Paid-up capital	Government companies Number	Government companies Paid-up capital	Non-Government companies Number	Non-Government companies Paid-up capital	Taken over sector Number	Taken over sector Paid-up capital
(At the end of Pre-Plan period) 1950	27558	723.9	-	-	-	-	1	5.00
(First Plan) 1955	29874	1024.2	61	66.0	29813	958.2	14	23.83
(Second Plan) 1960	26149	1818.5	142	547.0	26007	1271.5	267	30.31
(Third Plan) 1965	27010	2948.6	214	1247.7	26796	1700.9	287	41.26
(Annual Plan) 1968	27973	3860.3	259	1714.9	27714	2145.4	293	41.34
(Fourth Plan) 1973	37485	7631.0	450	4645.1	37035	2985.9	1369	371.12
(Fifth Plan) 1977	45632	10548.2	701	7174.5	44931	3373.7	1490	484.89
(Sixth Plan-Janata) 1978	51051	11878.1	782	8315.2	50269	3562.9	1495	490.64
(Sixth Plan) 1980	55780		825	9753.3	54955	3658.3	1517	505.91

Source :- Compiled from various annual reports of the deptt. of company Affairs, Government of India (Published in Company News & Notes).

Note :- Since a large number of taken-over unite were re-organised after take-over into one single unit, the number of taken-over units & larger than that of Govt, companies. Moreover, a lone taken-over unit may be organised as statutory corporation, not forming a part of the Govt. companies sector.

TABLE 6

TAKEN-OVER SECTOR AS A PERCENTAGE OF THE CORPORATE SECTOR AND GOVERNMENT AND NON-GOVERNMENT SECTOR COMPANIES

Year	Taken-over sector as % of Corporate sector		Taken-over sector as % of Govt. sector companies	Taken-over sectoras % of Non-Govt. Corporate sector	
	Number	Capital	Paid-up capital	Number	Paid-up capi
At the end of 1950	0.0036	0.69	-	-	-
At the end of 1st Plan	0.047	2.33	36.09	0.047	2.48
At the end of 2nd Plan	1.02	1.67	5.54	1.026	2.38
At the end of 3rd Plan	1.06	1.40	3.31	1.07	2.43
At the end of Annual Plan	1.05	1.07	2.41	1.06	1.93
At the end of 4th Plan	3.65	4.86	7.99	3.7	12.43
At the end of 5th Paln	3.26	4.60	6.76	3.32	14.37
At the end of Janata Plan)	2.93	4.13	5.90	2.97	13.77
At the end of 1980	2.72	14.83	5.19	2.76	13.83

Source :- Complied from various annual reports of the Deptt. of Company Affairs, Govt, of India (Published in company News & Notes).
The number of Taken-over sector is not shown as percent of Govt. Sector companies as the former exceeds the latter owing to grouping of many private companies together after their take-over.

As we see in the course of our discussion over the stated objectives of nationalisation, reduction of concentration of economic power and wealth and acquisition of control over the commanding heights were among the stated guiding objectives only in the case of take-over of 14 major commercial banks and of general insurance companies. Hence, it is little wonder that nationalisations did not act as a countervailing force to the revigorated process of concentration of income, wealth and economic power under a regime of State-supported process of industrialisation in a 'mixed economy' framework. The large industrial houses (as defined in the Report of ILPIC) did not lose much ground by way of takeover as they were not made special targets for chopping off the heights in order to introduce an effective dose of agalitarianism as a part of the strategy of developing an industrialised capitalist economy through dirigistic national planning. The large industrial houses did lose ownership and control over some of their financial (major commercial banks and life and general insurance companies) and non-financial companies (air lines, coal mines, one copper unit). However, these take-overs were not specifically meant to clip the wings of large industrial houses. Even in terms of India's growth strategy, growth of GNP was to be brought about by activising private accumulation

and state accumulation, but without the latter acquiring any major part of the former in a planned manner.

Thus, nationalisations could not become a recknable factor for redistribution against the largest existing pockets of private concentration of economic resources in private hands. The inherent trend towards growing centralisation and concentration of the Indian economy continued its basic thrust unaffected by nationalisations. It was on the basis of such features of nationalisation that it could become a co-opted policy instrument of a market economy. Redistribution of material economic resources was neither a part of the concept or good-structure of 'growth', nor was it used as an instrument for accelerating 'growth'. In fact, the use of nationalisation as a policy tool too has been largely ad-hoc and it has yet to emerge as a regular, well-defined and systematic instrument of public policy. Neither there emerged clearly specified guidelines about the circumstances in which the policy of nationalisation could be adopted, nor any evolution of criteria for the choice of candidates for take-over. Similarly, no national policy objectives have been specified, particularly in the Plans, which require nationalisation as either a necessary or a sufficient condition. Both past experience and stated views by the spokespersons

of the regime suggest that just as there are no specific threats or prospects of nationalisation looming on the horizon of our policy firmament, there are no clearly laid down guarantees or prohibitions against nationalisation except the general tennor of policy and ideological sympathies which are tilted against nationalisation.

Any actual nationalisation is a matter of real political economy pertaining to any policy objectives concerning sector, region, industry and/or individual enterprise as also of the complex forces operating at a historical juncture. Though a systematic policy perspective on nationalisations is yet to emerge, it is no longer a very rare public policy intervention. It is true that extended reproduction of the system is not contingent upon resort to systematic nationalisation at the macro level if planning for a fluctuating rate of growth in the range of 3-4 percent to 5-6 percent and with largly the same pattern as witnessed during 1947-1980 is all one is looking for. This is based on historical experience of India during 1950-1980, when either some inescapable or distortions - removing or some growth-strategy induced (like that of commercial banks) or relief rehabilitation take-overs (of sick industrial units) or some nationalisations based on international factors (like that of

petroleum companies) were undertaken, added, of course, by specific political forces, contingencies and processes. Despite all the these nationalisations, it would be diffi-cult to conclude that they are related to our growth strategy - in a systematic, planning manner.

If similar political forces and processes and similar growth perspective is extrapolated over the next decade, (given very sparing use of nationalisations during 1980-1985), it can probably be inferred that nationalisation may well remain an ad-hoc, sporadic policy move as a measure of last resort and of extremely reluctant choice (and probably watered down in the process of devising a concrete methodology of take-over). It may not, consequently, have a greatly different complextion and may not be expected to produce greatly dissimilar repercusions on our political economy. Not only on account of industrial sickness, but also on account of failure of other policy instruments to yield results or on account of the need to cope up with international competitive pressured, or on account of the need to raise resources for the plan, nationalisations may spread to many other spheres during the 19 90s, without or course, inaugurating an era of nationalisations or putting nationalisations as a policy instrument on par with, way monetary policy, fiscal policy, industrial licensing and regulation etc.

However, none of these possibilities can alter the complexion of nationalisation towards making a special target of the enterprises owned and controlled by the large industrial houses, except when the perspective on development goals and strategies change towards making the teeming millions both the main beneficiaries and main instruments of development. This means a different kind of political power and a different alignment of class relations, in which the locus of power shifts away from the big industrialists (though not a total loss and in which the small and medium capitalists both in agriculture and industry jointly with intermediate strata come to acquire a dominant position. It may even be doubtful that there may be a stage in the development of a capitalist system in which non-monopoly capitalist segment acquire for any respectable length of time relatively stronger position vis-a-vis the larger monopoly segments. This is so because such a pattern of dominance is at variance with the law of centralisation and concentration in a capitalist economy. Even if, such a pattern of dominance emerges through conscious policy measures and mass mobilisation, it may turn-out to be short-lived, though not necessarily. If such a stage were to be reached, nationalisations of the larger industrial houses, including of their enterprises producing mass consumption goods, may become essential. Such nationalisations may help change the sellers' market situation

may help curb the growth of black economy, augment the supply of wage-goods, increase employment and generally bring our growth closer to development or make it a different type of capitalist development.

Thus one can see that the size of enterprises whether large, medium or small, was not a consideration which entered in the choice of various industries services or enterprises for nationalisation, except while choosing larger banks for take-over. The choice of areas of nationalisation depended upon a large number of sector or enterprise specific factors and very rarely, as in the case of banks, general insurance and life insurance, macro-level consideration entered the decision making process. However, the fact that even without a conscious choice some enterprises controlled by the large industrial houses in the financial and non-financial sectors could not escape nationalisation is significant. For onething, it shows that a continued use of policy instrument for a period of over 30 years and connected with a variety of pressures and complusion makes it move in such a manner that it has to bring under the umbrella of nationalisation many enterprises belonign to large industrial houses. After all, the motivating factors for nationalisation ranged from effective economic regulation, planning for economic development, attempts to channelise investment in specific economic activities

on the one hand to specific factors like the need to take care of the employment of the workers threatened by industrial sickness and attempts to maintain essential infrastructural facilities and contained availability of essential inputs for continued operations of the industrial apparatus on the other. Given the range of economic activities covered by the large industrial houses such widely-focussed nationalisation could not naturally spare them.

Though it can be said that there was no conscious thrust regarding the size and significance of various enterprises in choosing them for nationalisation, by the very nature of India's industrial structure, nationalisation could not remain scaleneutral. It affected large industrial houses, medium and small enterprises and corporate as well as non-corporate enterprises. Since the corporate enterprises and relative larger unit form a major part of India's industrial stricture and organised economic activities, it was inherent in the situation that, relatively speaking, the share of larger enterprises which were nationalised should exceed relatively smaller nationalised enterprises.

However, this does not indicate any conscious policy design and articulation of the instrument of take-overs for any egalitarian, deconcentration objectives. Since,

the financial sector in which the large industrial houses dominated has been nearly completely nationalised, the future growth of large industrial houses would depend not so much on their own direct control in credit and industrial finance (money capital) as on the public policies regarding the availability of such finances to large industrial houses and the terms of such availability. In this sense, theimportance of the public sphere has certainly increased as a result of nationalisations and its long run significance would be dependent upon on the directions which the balance of forces in the Indian economy take for determining the policy objectives of the nationalised financial institutions.

We have seen that the majority of the nationalisations in the country were affected by means of an Act of the Parliament. Either in the body of the A Act itself or in the course of the debates on it, Government stated the objectives which it wanted to achieve by transferring to public ownership either shares or the undertaking of the Company or by acquiring certain productive enterprises. It is true that the statements of objectives given in the Act do not always convey either the whole story or the main story and may amount to some kind of window-dressing. However, these statements do contain some elements or give an inkling about the elements which made the State go in for nationalisation. Another value which a statement of objectives explicitly made by the State has is that contains the ground on the basis of which the Government wants the legislature to approve a particular accretion to the public sector. It also provides the basis on which the State wants the public opinion in general to endorse it.

It is true that there may well be many grounds for the take-over of enterprises which may not be stated entirely or which may even caumouflage the real

objectives. It is also true that such a statement has to be in general terms and cannot have a high degree of specificity and finesse about it. Given these limitations, it is interesting to analysis the objectives given in various nationalisation laws.

We find that the need to re-organise, reconstruct and rehabilitate a business or industry for its proper functioning and development or in order to ensure the continuity of production and supply of essential goods which are of vital importance to the needs of the economy were the objectives which were given most often (in as m many as 19 cases). See Statement listing the objectives of nationalisation as stated in relevant laws). It is apparent that these objectives related to the take-over of all sick and closed industrial enterprises. These objectives often occurred along with the general objectives of establishing greater public control (15) in order to subserve the interests of the general public, or to ensure the fulfilment of export contracts or to reduce the import of items through augmentation of supplies produced indigenously (1) Often these objectives have also been stated in the case of either closed or sick units. Such a high frequency of these rehabilitation, reconstruction, continuation objectives suggest that nationalisations were resorted to quite frequently in

in order to deal with the problems of industrial sickness, particularly owing to the importance of the units which became sick in terms of employment and supplies. In these cases an associated objectives of preventing the growth unemployment was also often mentioned, either in the law itself or in the course of the debate in the Parliament.

Nationalisation in order to subserve the general public interest is an objective which had been given in a variety of cases; its non-specificity probably came handy even in cases like that of Jayantji Shipping Company which had to be saved from an unscrupulous management in order to protect public resources. In the transport sector, the need to expand these infra-structural facilities was almost invariably stated among the objectives of nationalisation.

Many other sector specific objectives were stated in many cases like those of petroleum companies, coalmines, banking, etc. Central macro level objectives connected with development were mentioned for banks. Conservation, proper utilisation and scientific development of natural resources were the stated objectives with respect to coal industry, Indian Copper Corporation and Metal Corporation of India. The objective of preventing concentration of economic power and wealth, to control

the commanding heights of the economy, or to extend public ownership and control for the achievement of the Directive principles of State Policy were said to have been the objectives only in the case of commercial banks and general insurance.

In case of no non-financial sector nationalisation did the government recognise deconcentration of economic power and wealth to have been its stated, avowed objective. Similarly, no nationalisation law stated that foreign capital was acquired by the state in order to remove external control over any economic activity or in order to bring a particular line of production directly under national ownership and control. Similarly, no nationalisation was related by official statement to the implementation of the strategy of planning for development, except some targential reference among the objectives for the take-over of 14 major Commercial Banks that it was related to the need to better serve the 'needs of development of the economy in confirmity with national policy and objectives." Some banks were also taken-over with the stated objective of extending banking facilities to rural areas. In as many as seven cases, the linkages of some industrial units with public sector units was stated to have necessitated their

take-over as the former because "Sick" under private hands. The long list of objectives attached to the take-over of Maruti Ltd. (a company floated for manufacturing indigenous, small car by a politically powerful person) tell their own tale as they appear as after-thoughts.

OBJECTIVES OF NATIONALISATION
AS STATED IN RELEVANT LAWS
1947 - 1980

Objectives	Frequency of Occurrence	Name of the Industry/ Business/Units for which it occurs.
1	2	3
1. Greater public control to sub-serve the interest of general public.	15	Life Insurance, General Insurance, Coal Mines, Banks, Reserve Bank of India, Indian Copper Corporation, ESSO, ~~In~~ Indian Iron and Steel Company, Metal Corpn. Hind Cycles, Sen Raleigh, Bird and Company, Bengal Chemical, National Company, Jute Companies, Air Corporations, Jayanti.
2. To enhance the scope of transport facility.	3	Air Corporation, Jayanti Shipping, Konkan Passenger Ships.
3. To ensure co-ordinated distribution and utilisation of Petroleum products to subserve the common good.	3	Esso, Burmah Shell, Caltex.

1	2	3
4. To prevent concentration of wealth to the common detriment.	1	General Insurance
5. To control the hights of the economy.	1	Banks.
6. To promote the welfare of the people by securing the principles laid down in claused (b) and (c) of Article 89 of the constitution.	1	Banks.
7. To reorganise, reconstruct and rehabilitate a business/industry for its development and proper functioning to meet the growing need of the country.	5	Coal mines, Coal mines, Textile units, Smith Stani Street & Co. Ltd., Bengal Chemicals & Pharmaceuricals.
8. To ensure continuity of production and supply of goods which are to subserve public interest (or of vital importance to the needs of the country, especially defence, railways, power generation, etc.).	14	Ricjardson & Guddas, Alcock Ashdown Co.Ltd. Braithwaite & Co.Ltd., Burn & Co., Indian Standard Wagon, Indian Iron & Steel Co., Smith Stain Street & Co. Ltd., Hindustan tractors, Brittania Engg. Arthur Butler, Hind Cycles, Sen Raleigh, Bird & Co., National Co., Jute Mills, Textile Mills.
9. To widen the scope of business to rural areas or covering more people.	2	Banks, Imperial Bank of India.

1	2	3
10. To help the business/industry/unit/or any vital deptt. already in the hands of govt. by means of proper functioning (which includes enhancement of production and also better distribution).	7	Banks, Asian Refractaries, Alcock Ashdown Co. Ltd., Assam Sillimanite, Gresham & Craven Britannia Engg., Arthurs Butler, State Bank of Hyderabad.
11. To better serve the needs of development of the economy in conformity with national policy and objectives.	2	Commercial Banks (2 Acts.)
12. To ensure proper utilization of natural resources to the maximum advantage of the nation.	3	Indian Copper Corporation, Coal mines, Metal Corporation.
13. To ensure fulfilment of export contracts.	2	Burn & Co., Indian Standard Wagon.
14. To reduce the import of an item through augmentation of the supplies of that item produced indigenously.	1	Assam Sillimanite.
15. Maruti Objectives:		
(a) To secure the available infrastructure of a unit in order to modernise the industry.	1	Maruti Ltd.
(b) To effect more economical utilization of scarce fuel.	1	Maruti Ltd.
(c) To ensure higher production of motor vehicles which are essential to the needs of the economy of the country.	1	Maruti Ltd.
(d) To generate employment in the interest of the general public.	1	Maruti Ltd.

Nationalisations in India affected some of the larger private enterprises. Of the companies listed among the top 300 in India during 1963-64 to 1967-68, we find that 13 companies were nationalised. Their ranks ranged from 6th to 275th (See Table VII). At a later stage, in a list of 251 public sector enterprises ranked according to capital employed, in 1983, we find that 27 nationalised companies are listed, excluding the financial companies. (Table VIII) Their ranking ranges from 3rd (coal India), and 11th (NTC) to 145th (Biecco Lawrie). Except for coalmines, some general insurance companies and some smaller commercial banks and some textile mills, nationalisation generally did not cover small and medium entrepreneurs.

This is as it should have been in the sense that since nationalisations were of marginal significance compared either to the size of the public sector or the corporate sector, it is to be expected that the large majority of small entrepreneurs are generally left untouched. Only when either the whole industry was nationalised (like coal, general and life insurance) and the public sector was given a legal monopoly or when some relatively smaller units became sick (like in case of textiles, jute, etc.) that some medium and small (non-monopoly house) enterprises were brought under the ambit of nationalisation.

Table VII

Raking of Companies Nationalized Companies, from top 300 Companies on the basis of sales during 1966-67.

Name of the Company	Rank in top 300 companies
1. Indian Iron Steel Company Ltd.	6
2. Caltax	43
3. Burmah Shell	60
4. Jessop & Co.	75
5. Indo-Burmah Petroleum	78
6. Burn & Co.	91
7. Balmer Lawrie	108
8. British India Corporation	109
9. Bengal Coal	115
10. Braithwaite & Co.	117
11. Luda Colliery	151
12. Burrakur Coal	205
13. Equitable Coal	275

Source: Top 300 Companies 1963-64 - 1967-68 Economic & Scientific Research Foundation, New Delhi. 1970.

Table VIII

Nationalised Public Sector Undertakings and their Ranking According to Capital Employed

	Name	Rank
1.	Air India	15
2.	Andrew Yule & Co.	85
3.	Balmer Lawrie & Co.	94
4.	Bharat Petroleum	36
5.	Biecco Lawrie	145
6.	Braithwaite & Co.	95
7.	British India Corpn.	89
8.	Burn Standard	68
9.	Central Coalfields	8
10.	Coal India	3
11.	Eastern Coalfields	21
12.	Garden Reach Shipbuilders and Engineers.	61
13.	Goa Shipyard	126
14.	Hindustan Petroleum Corpn.	24
15.	IISCO Stanton Pipe & Foundry Co.	121
16.	Indian Airlines.	17
17.	Indian Iron & Steel Co.	32
18.	Indo-Burmah Petroleum Co.	90
19.	Jessop Co.	60
20.	Lagan Jute Machinery	137

21.	Mandya National Paper Mills	112
22.	Mazagaon Dock	39
23.	Metal Scrap Trading Corporation	142
24.	National Textiles Corporation	11
25.	Richardson & Cruddes	22
26.	Smith Stanistreet Pharmaceuticals.	127
27.	Tannery & Footwear Corpn.	118

Source: Corporate Sector in India

(Ed. H. Ezekial) Vikas, New Delhi, 1984 pp. 143-148.

METHODS OF NATIONALISATION

Kamal Nayan Kabra

Nationalisation as a form of public intervention or as a tool of public policy is a method of inducing a socio-economic change in a given situation commensurate with the objectives of the State. It is a change in ownership and control over enterprises engaged in production from private to public agencies under control of the state.

However, it is not correct to say that nationalisation is a measure which has no scope for adjustment and finetuning in the sense that it merely changes the ownership and control from private to public hand. There are a number of choice variables which the policy instrument of nationalisation may make use of according to the specific needs and compulsions in the economy and preception of policy options by the decision-makers. These choice variables determine the content and likely impact of nationalisation. Some of the important choice variables connected with nationalisation as a policy measure wither for attaining a single or a set of policy objectives are :
choice of the industry to be acquired by the state (in its totality or partly, or to cover just a single enterprise); choice of criteria in case of partial nationalisation; timing of nationalisation; choice of method of take-over; phased or one-stroke take-over-particularly if

final take-over is to be preceded by management take-over; the method for determining compensation/consideration and mode of its payment to former owners/shareholders; choice of method for dealing with various kinds of outstanding liabilities of the taken-over concern, particularly those relating to workers, creditors, etc.; organisational and management structure following nationalisation, particularly if and how the former owners and controllers are to be associated with the control and management of the taken-over concerns; choice concerning granting of monopoly rights to the taken-over concerns in the relevant economic activity, or permission of future entry to private enterprise in the taken-over field, take-over of the shares or the undertaking of the company nationalised, etc.

It can be seen from the list of choice variables above that these relate to substantive issues and have a bearing on the nature and implications of any move to nationalise any private enterprise/enterprises. In the present chapter, we intend to analyse various methods adopted for nationalising economic activities and private enterprises in India over the period 1947-1980.

Table I shows the extent to which various methods have been relied upon for nationalisations in India during 1947-80 (on the basis of prices obtaining in each of the years when a specific take-over took place). Table II presents the same information in 1970-71 prices. The

The choice of the method of nationalisation was greatly influenced by various constitutional provisions concerning private property and freedom of private enterprise.[1] The legal process and the government's rights concerning nationalisation and the legal constraints under which acquisition of private property by the State can take place were, to begin with, governed by Article 31 and Article 19G of the Indian Constitution.[2] However, in 1978, when the constitution 44th Amendment Act was enacted, the Article 31 was omitted and has been bodily lifted from the fundamental rights chapter to make a new provision outside Part III, viz. Article 300A. Article 300A, Chapter IV of the Constitution states that no person shall be deprived of his property save by the authority of law. Article 19G of the Constitution states that all citizens shall have the freedom to practice any profession or to carry on any occupation, trade or business. It does not however, prevent the State from making any law relating to the professional or technical qualifications necessary for practicing any profession or carrying on any occupation, trade or business. Nor does Article 19G stand in the way of the State or a public corporation carrying on any trade, business or industry, even to the extent of exclusion, complete or partial, of all citizens from the economic activity undertaken by the state as a total or partial monopoly.

Thus the Indian Constitution gave two important rights to the citizens. The first right, connected with ownership of means of production or property, was the fundamental right to own property, without being deprived of it by the state except under the authority of law. According to Article 19G, read along with what was earlier Article 31 and is presently Article 300A, there prevails in India a system of constitutionally sanctified right to private property and freedom of private enterprise, though the right of the state either to put limitations on the private citizens' right to undertake trade, business, industry and service or the right of the state to undertake such economic activities itself, by completely or partially excluding the citizens from such activities, also existed. The state was also empowered to acquire private property according to a specified legal procedure.

As nationalisation is not only acquisition of private property by the State from private citizens but is also a limitation on private enterprise, going to the extent of exclusion from certain specified economic activities, any nationalisation law affects both the right to private property as well as freedom of private enterprise. It also gives the State the right to acquire monopoly rights over economic activities or permits the State to participate in economic activities in competition with individual

citizens. It was amplified by a ruling of the Supreme Court that the State can enter into any trade or business like a private individual without a specific legislation authorising such activities (see Kandala Rao Vs. A.P.S.R. T.C., A. 1961 SC 82). It was specified that the right to carry on a trade or business is included in the executive power of the Union or a State. However, when the State seeks to create a monopoly in its favour to the exclusion of the citizens, a specific legislation would be necessary. Similarly, if the State wants to enter into any business by acquiring the property of individual citizens, it will have to obtain the sanction of legislature according to the due process of law. In fact, the constitution provides that the right of citizens to carry on business is subject to limits imposed by the State in the interest of punlic welfare and other grounds mentioned in clause 6 of Article 19.

Thus according to the Constitution, any decision to nationalise any enterprise affects on the one hand, the right to private property, and on the other the right to carry on any trade, business or occupation according to one's choice. The Constitution in its earlier version provided under Article 31A (which was inserted by the first Amendment to the Constitution in 1951), various provisions for enabling the State to validate the

acquisition of Zamidaries and the abolition of Permanent Settlement without interference from courts. It provided that no past or future laws affecting rights of any proprictor or intermediate holder in any State shall be void on account of infringement of fundemental rights, particularly that such laws would not be held void on the grounds that either non compensation or illusory compensation has been paid or that it serves no public purpose or that it violates some fundamental rights. It also sanctioned management take-overs, amalgamation of two or more corporations, termination or modification of the rights of managing agents, secretaries, treasures, managing directors etc. or termination or modification of mining rights and leases.

The Constitution also provided that when such private properties are taken over by the State, compensation shall be given to the citizens for being deprived of all their property. The word compensation occurred in the original Article 31 (2). It was interpreted for various decisions by the courts to mean compensation at market value as being just and fair acquivalent compensation. After a long history of constitutional litigation and amendments, ultimately the word compensation was dropped from the Constitution and it was prescribed that property can be acquired by the government simply by paying an amount in

return for the transfer of property. After the 44th Amendment to the Constitution, there is no express provision in the Constitution requiring the State to pay compensation to an expropriated owner. As a result of the 44th Amendment it has been left to the legislature to deprive a person by the authority of law of his right to hold property. If such law takes away a man's property without payment of any compensation, he shall have no legal remedy open to him on the ground that no compensation had either been paid or made payable by such law. However, in terms of Article 300A if one's property is taken away by the executive without the authority of law, he would be entitled to legal relief on the ground that such executive action is in contravention of Article 300A. This is the implication of right to property not being treated a fundamental right. Moreover, since this article does not form a part of the fundamental rights chapter of the Constitution, the agrieved individual or party would not be able to move the Supreme Court and under Article 32 and his remedy would be either under Article 226 or by a civil suit. Further some authorities maintain that after the 44th Amendment nobody shall have any right to compensation under the Constitution unless the expropreation or nationalisation law itself offers compensation. Some legal authorities maintained that such a right must now be implied by the Courts from the Legislation entry No.42 of List 3rd of the 7th Schedule

which reads as follows: 'acquisition and requisitioning of property'. This seems for fetched and does not seem to be in keeping with the spirit of the 44th amendment.

Thus it can be seen that the Indian Constitution does not stand in the way of any nationalisation and over time the process for take-over has been simplified and made less cumbersome and onerous.

Table I shows the extent to which various methods have been relied upon for nationalisations in India during 1947-89 (on the basis of prices obtaining in each of the years when a specific take-over took place). Table II presents the same information at 1970-71 prices.

The following methods have been used in India for accertious to public sector by transfer of private enterprises to government's ownership:-

(1) Nationalisation of an entire industry/service by means of an act of parliament.

(2) Nationalisation of many concerns in industry/service by means of an act of parliament.

(3) Nationalisation of a single concern by a legal enactment.

(4) Nationalisation under the authority of the enabling provisions of an existing law.

(5) Nationalisation by acquisition of all or majority shares of a private or joint sector company, whether compulsorily or through negotiations.

(6) Take-over of the subsidiary of a holding company consequent upon the nationalisation of the latter.

Some of these nationalisations may follow an earlier take-over of their management, either in order to meet an emergancy situation without having to spend time on taking a number of decisions which have to be made for a full nationalisation or in order to make a thorough study of the assets, liabilities and other records in order to assess the actual situation of the enterprise, particularly with a view to determine the compensation amount. In many take-over in terms of the

provisions of the industrial (Development and Regulation) Act, 1951, it was necessary to first take-over the management of the company prior to its nationalisation. In many cases, particularly of take-over of individual companies, there was no nationalisation of the management acquired companies for a number of years, (like that of Ganesh Flour Mill Co.).

We find that the most important method used for nationalisation was by means of an enactment of a law for the purpose. This can be seen from the fact that the method of share acquisition was used only in the case of 19 non-financial companies, representing less than 8 percent of the total paid-up capital of the nationalised companies at book values and over 11 percent at 1970-71 prices. That the consideration paid to the former owners of these 19 companies was about one percent of the total compensation/consideration paid for take-overs at book values and about 2 percent in 1970-71 prices is mainly on account of the fact that we could not get information on prices or amount paid by the government for acquiring the shares of most of the companies. Expectedly, consequential take-overs of subsidiaries provided less than one percent of the paid-up capital and less than 3 percent of the networth of total nationalisations on both the valuation mentioned earlier.

Some 27 small commercial banks were merged with public sector banks under enabling provisions of various banking laws. The overall contribution of this method to nationalisation was rather insignificant accounting for less than one percent in almost every respect of all the nationalisations. Except for some laws relating to banks, we could come across enabling provisions for take-over only in Industrial Development and Regulation Act, 1951. This provision, with a fairly detailed procedure was applicable only to individual companies and generally necessitated an incubation period in the form of management take-over. It was availed of for quite a few engineering, textiles, jute, chemicals and pharmaceutical companies, though final take-over was by means of a specific law.

The law-authorised nationalisations may be further divided into three groups : a law for nationalisation of an entire industry/service; a law for take-over of a number of companies in a branch of economic activity; and a law for take-over of an individual enterprise. The first one was the method most-often resorted to and accounts for over 55 percent of all the take-overs in terms of paid-up capital and for over 25 percent in terms of compensation. In terms of number of firms acquired by the state it was used for over 85 percent of them. This method transferred to public authorities about 70 percent of the turn-over of nationalised financial concerns. Though coal and airlines

were also nationalised by this method, we could not obtain data about their turnover.

Take-over of a group of enterprises by means of a single law covered 128 concerns; accounting for over 12 percent of PUC and over 30 percent of both compensation and financial sector turn-over both in terms of book values and 1970-71 prices (Table I & II) 103 textile units were acquired under this method but we could not obtain information on their turnover for all the units.

Thirty five companies, including the Reserve Bank of India and the Imperial Bank of India, were acquired by the government by passing a specific law for the take-over of each company. These unit by unit take-overs with a fair degree of industrial diversity mainly in the manufacturing sector constituted about one-fifth of the PUC of all the nationalised companies. The share of this method in the total net-worth of the nationalised sector is greater than that in PUC, mainly because of net-worth data were available for a much larger number of companies falling under this category than for concerns acquired by other methods. Since most of these companies belonged to the non-financial, manufacturing sector, we had better data availability regarding them, These companies account for over 86 percent of the total turn-over of nationalised non-financial sector.

Transfer of productive resources organised and operating as firms to public ownership and control can take place only under the authority of law because the Indian Constitution has prescribed that no private property shall be acquired by the state except under the authority of law and according to the due process of law. This, however, does not mean that every specific piece of nationalisation has to come about under the same legal process or procedure. An examination of the experience of nationalisation in India during the period 1947 to 1980 shows that in most of the cases the parliament has to enact a specific law in order to bring about a relative extension of public ownership and control at the expense of private sector by means of transfer of its specific components to public ownership and control.

There have been cases in which the Parliament passed a law not only nationalising an entire industry or an economic activity, but also gave in some cases a legal monopoly of the economic activity in question to the successor public sector concern. These nationalisations encompassing an entire branch of economic activity numbered four, two in the financial sector viz. life insurance and general insurance and two in non-financial sector viz civil aviation, and coal mining. Banks in private hands particularly foreign private banks, were permitted to remain in business.

In a predominantly private enterprise market economy, nationalisation had at times to limit its range or intrusion to only a part of a specific brnach of economic activities. Such partial nationalisations were also brought about by passing legislations convering a group of firms belonging to that industry or service. In India during this period such partial nationalisations covered commercial banking in 3 instalments in 1960, 1969 and 1980. The process began with the creation of the State Bank of India and its subsidiaries by the take-over of Imperial Bank of India and some of the banks in former princely states which consented to their subsidiarisation. In terms of our classification of the methods of nationalisation the take-over of the Imperial Bank of India was a case of the take-over of a specific single company by means of a parliamentary Act. Five subsidiaries of the SBI were created by take-over of 5 privately controlled state associated banks . . . .

A major step in transferring the commanding heights of commercial banking was taken in the year 1969 when 14 major Indian commercial banks, excluding the foreign banks operating in India, were nationalised in one of the most momentous acts of nationalisation undertaken in India. The position of public sector banking was further butteressed in the year 1980 when six biggest Indian banks still remaining with the private sector were

brought under public ownership and control.

In the non-financial sector we have the important case of partial nationalisation of the textile industry by take-over of 103 sick textile mills. As a result, nearly a quarter of the textile industry became a part and parcel of the Indian public sector.

There have been as seen above 35 cases of take-over of individual companies under the authorisation of specific Acts of parliament during the period 1947 to 1980. Only two of these companies belonged to financial sector i.e. the Reserve Bank of India and Imperial Bank of India. Thirty three non-financial companies which were transferred to the public sector by a specific legal enactment belonged to many different industries ranging from engineering and metal works, shipping and ship building, oil companies engaged in refining, production of petroleum products, bi-cycle and automobile companies, jute mills, pharmaceutical companies and the like. It may be noted that all these company by company take-overs took place during 1970's and derived to a considerable extent from the recession which hit the Indian economy during the mid 1960's and which hastened the process of reducing these firms to a non-viable state, necessitating their revival. It was partly owing to the need to protect

the employment of those who were liable to be rendered unemployed owing to the closure of these concerns. Then, their revival became necessary as these concerns were producing important capital and basic goods, intermediate goods or providing essential services for many important branches of the economy. The entire petroleum oil industry became nationalised owing to take-over of all the companies working in this field one by one.

In the banking sector there existed a couple of laws which contained provisions for the transfer of private companies to public control by way of merger with public sector banks or by the take-over of private banks by public sector banks. Such provisions existed in the State Bank of India Act 1955, State Bank of India subsidiaries Act 1959 and the Banking Regulation Act 1949. Since the India commercial banking was characterised by a large number of small, non-viable and inefficient banks not always following legal and sound banking practices, there were many bank failures causing disruption in the economy, particularly of the specific areas where these banks were operating and adversly affected public confidence in the soundness of the banking system. In order to do away with mal-functioning, inefficient banks, many facing liquidations and bankruptcy, as many as 27 banks were merged with the State Bank of India and its subsidiaries

during the decade 1961-71. Though in terms of total size of the banking sector these banks did not count for much as the total advances by these banks hardly amounted to a little over Rs.22 crores but the contribution of their transfer to public ownership was significant in as much as it strengthened the banking structure by weeding out small and inefficient banks which were also adopting unscrupulous practices.

Ninteen companies were transferred to public ownership and control by means of the State going in for the acquision of either the entire share-holding or such an amount of share-holding as to give the state a decisive voice in the affairs of these companies. All these ninteen companies whose shares were acquired by the Government belonged to the non-financial manufacturing sector and their nationalisation became necessary on account of factors similar to those which led to the nationalisation of individual companies by passing an Act of Parliament.

About 10 companies became public sector enterprises because their parent companies were nationalised. Thus the subsidiary companies became a part of the public sector as a consequence of the take-over of the parent company.

To sum up, in terms of numbers as well as in terms of various financial indicators like paid-up capital, net-woth , assets, turn-over, we find that nationalisation of an entire industry by a legal enactment was the most important method adopted for nationalisation. Though in terms of numbers, nationalisations either of a group of companies or of an individual company by a law were not very significant but in terms of the financial indicators mentioned above these two methods were more important than the nationalisation of an entire industry by a law. As seen earlier, the entire oil industry was nationalised by means of take-over of individual companies, generally by a specific law, but in some cases by share acquisition as well. Interestingly in terms of compensation paid, these two methods came to account for over 70 percent of the total compensation/consideration paid for all the nationalisation in the country.

The other methods like share acquisition and the consequential take-over or take-over under an enabling provision of a law are comparatively less significant both in terms of numbers as well as in terms of various financial indicators.

A number of alternative methods, were available for nationalising any operative enterprise either singly, alongwith many others or along with all the concerns

in a specific branch of activities. The choice of a method for transferring productive enterprise to public custody was dependent on a set of legal/technical factors in addition to many other factors.

At times, the legal constitutional position seem to have decided the manner in which a take-over was affected. For instance, there were protracted negotiations between the government and the oil companies over the terms, timing, etc., of the take-over of oil companies during the first half of the 1970s. Even though the two parties had agreed on the terms and modus operandi of government acquisition of the oil companies, an Act had to be legislated because share acquisition of a company registered abroad was not considered proper without parliamentary authorisation.

Then, for transferring ownership and control of small, non-viable banks, enabling provisions of various statutes were utilised. But when it came to large banks well-managed in a conventional sense a specific political decision, and a law for giving effect to it were considered essential.

Many factors necessitated recourse to a law for nationalising the major banks. For one, substantial

compensation liabilities had to be provided for, something not possible without a legislative sanction. Second, a new organisational set up for owing, controlling and operating the taken-over banks had to be created. This was not possible merely by an executive fiat and needed legislative sanction. The terms of acquisition, the amount of compensation and the mode of its disbursement also required a legal basis. The choices available with respect to these matters enabled the authorities to make the measure serve specific needs of the industry or concern nationalised (fine-tuning), make it politically acceptable and reconcile various conflicting socio-edonomic pulls and pressures. The organisational management set-up of the nationalised uundertakings reflected some elements of the form and content of the post-nationalisation phase.

Then, the method and terms of such take-over had to satisfy some constitutional stipulations. On these constitutional grounds, the nationalisation decisions could be and had often been challenged in law courts. No wonder, a take-over law had to be a very carefully and deligently drafted document, anticipating many sub-tleties and eventualities. Specific provisions were required in order to deal with liabilities, assets, legal rights and obligations of the firms to be taken-over. Also needed are provisions concerning the rights

and claims of employees, creditors, suppliers, etc. A simple take-over decision hardly says anything specific about these complicated matters. Following the take-over decision, many subsequent, subsidiary decision are required. An appropriate legal basis, therefore, is essential for specifying the details of the take-over decision and laying down the modalities, criteria and structures for subsequent secondary decisions.

At a political level, the decision to go in for nationalisation is a major economic and political decision. A parliamentary democracy must obtain the approval of the peoples representatives for all the aspects of the transfer of private productive property to public domain. More so in a society which takes over private productive property selectively in some specific lines of production, while leaving the general private enterprise, market machanism orientation intact, if not strengthened, by removal of contradictions and straightening of angularities. Nationalisations under capitalism are, by nature, a discriminatory measure. Hence legislative control and sanction are essential in order to reduce areas of arbitrariness, subjectivism, and disfunctionalities. Since a law can be challenged in a court of law, legislative details and debates provide opportunities for public scrutiny and exposure of various aspects of the decision to nationalise,

a law-based nationalisation is a comparatively better method of nationalisation. An executive decision on various operational aspects of nationalisation would place all these things under the shround of official secrecy and is liable to be misused, apart form evading specific and direct public accountability in the immediate future.

Thus nationalisation under a specific law enacted for the purpose is not only generally essential but is in many ways a desirable course of action as well. As against this, share acquisition smacks more of either a market transaction or a 'privately' transacted public deal. It fails to make public many of the terms of transfer to public ownership and leaves the question of post-take-over management to administrative fiats. T he consideration or price paid for share-acquisition has to be related to some clear-cut criteria. A parliamentary debate over the take-over law generally goes into the compensation issue at great length and, at the committee stage, a further detailed scrutiny is po possible. On the contrary, even the terms of share acquisition may not be published, let alone their scrutiny and public justification.

Normally, the details of share acquisition become known to public as fait accompli. A law to take-over receives wide publicity, which may produce some

announcement affects since it is a move to partially change property relations in some*branches of production in a certain manner. A transfer of shares, on the other hand, receives relatively little publicity. Depending on the kind of political fall out expected from nationalisation, and/orexpected resistance to it, a regime may prefer legislative route or share purchase device for the take-overs it is contemplating. Share purchase may have an element of compulsion, if there are certain laws, like the Industrial Development and Regulation Act, which empower the government to compulsorily acquire an undertaking. When unfavourable situations like closure, bankruptcy, liquidation, acute labour trouble, loss of market, unfavourable techanical or structural changes, etc. threaten the continuance of a company in production and make the private owners willing to accept the terms offered by the government, share purchase methods may be adopted. However, two factors may vitiate the terms offered to former owners under share acquisition more than they do under legislated take-overs. One, the specific, personal equation between the politicians and bureaucrats on the one hand, and the private controllers of the firms on the other may introduce subjective considerations. Second, the general sympathies of the government towards private ownership and enterprise may decide the choice in favour of share acquisition if it is

legally possible. However, share acquisition has been possible only in the case of take-over of individual companies. But when nationalisation of a group of companies or an entire line of production are involved, the option of share acquisition does not seem to obtain. In many cases, share-acquisition may well be negotiated take-over, though legislated take-overs too could be negotiated for determining its terms and modalities.

At times, the government may not have adequate information for deciding the terms and conditions of take-over. Such information may only follow actual control over the affairs and records of enterprises in question. Share-acquisition in such cases would make the government dependent either on published information or on information obtained by means of special investigations ordered for the purpose or on information voluntarily offered by the enterprises in question.

In such cases management take-over prior to final nationalisation may become essential. In many cases like those of insurance companies, coal mined, many textile mills, many engineering companies, etc.; actual and final transfer of ownership titles was preceded by the take-over of the management of the firms/companies concerned. These companies were given compensation for the transfer of management to public agencies.

Alternative choices available with regard to the method of take-over are an important attribute of nationalisation as an instrument of public policy. The range of choices regarding methods of take-over give the nationalisation instrument a certain degree of flexibility and room for manoeuvre. It is not as though either you go in for nationalisation or you do not. There are nationalisations with different degrees of actual state ownership and control, with different, time phasing of the process of transfer to public sector, with different degreed of involvement of the former interests with the new set-up, with different rates at which the former owners may be compensated for the loss of thir property and rights and privilleges obtained by means of its operations. Even the manner in which the compensation amount is disbursed, whether at one go and in cash, or in instalments with varying rates of interest and time spread in the forms of bonds offer ample choices for fine-tuning the policy of nationalisation in order to make it respond to specific sets of compulsions facing the industry or the economy. They determinethe quality or character of nationalisation.

We have seen the case of nationalisation of private airlines facing problems of excessive competition with limited traffoc and inability to find resources needed for obtaining modern aircrafts. Dominated as this

service was with the presence of some large industrial houses, the Air Transport Enquiry Committee found it difficult to come out with a recommendation in favour of its take-over. However it went on to suggest modalities for take-over in case the government were inclined to over-rule its recommendations. Following these recommendations, the chief executive with controlling interest of the biggest airline was made the chairman of the nationalised air corporation, even during the period the successor public corporation was to determine the compensation amount to the private companies (including the one belonging to the group headed by the chief of the successor public corporation) by evaluating each and every asset of the latter.

We have seen the result of these excessively 'liberal' provisions in the form of an increase in the share price of the company whose chief controller was nominated to head the nationalised corporation. The first action of the government of independent India to go in for the take-over of an entire branch of economic activity which was unable to expand without obtaining public funds, did not give rise to any misapprehensions among private industrialists. Apparently the terms and conditions of take-over went a long way in soothing the hurt caused by depriving private sector of a modern line of enterprise, which, in any case, catered to the demands and

needs of the elite-groups.

The treatment given to the firms assets and liabilities, contractual relations between employers and employees, quantum and mode of payment of compensation and association of former owners/controllers with the management of taken-over units give areas of choice and discreation to the government in deciding on the use of nationalisation as an instrument of intervention or as a policy instrument. These choices contribute to the socio-economic content of nationalisation and enlarge the options available to the public authorities in the use of the instriment of nationalisation. There are cases when nationalisations are based on the explicit objective of doing away with private property and enterprise, which is considered either inappropriate or inferior to collective ownership as such (whether in a specific branch of economic activities or for the economy as a whole), leading to a high degree of convergence and indistinguishability between the policy goal and policy instrument. Except for such a case, the use of the instrument of nationalisation required, a certain degree of flexibility and adaptability in order to meet macro, industry and enterprise specific objectives.

The experience of India during 1947-1980 shows that these elements of flexibility were made extensive use of

in order to serve specific policy objectives. It is true that these elements represent areas of secondary decision-making and are an area in which a good deal of bureaucratic discretion and attendant biases with scope for silent buffetting by various lobbies may play a role. Moreover, a fair degree of adhocism seen in the adoption of nationalisation as well as a desire to co-opt it as a policy instrument not necessarily antagonistic to private property- private enterprise economy do not always lead to a conscious recognition of various choice variables and their long-run socio-economic implications. The analytical capabilities and conceptual theoretical equipment of the decision makers and their advisers, based on a paradigm centred on the virtues of private property and enterprise, are hardly suited to raise such issues, let alone, handle them. Neverthelesss, these choices are excercised based on specific needs and compulsions. At time these decisions are made in response to judical verdict on earlier nationalisation laws challenged by the former owners, while at times, the affected parties were able to get these details modified at the committee stage (as in the case of e.g., general insurance companies and the Indian Copper Corporation Ltd.).

In sum, the choice of a specific method for giving effect to nationalisation is an area of secondary

decision-making with substantive significance from the point of the government, the affected parties, socio-economic content of nationalisation as also from the point of view of flexibility and adaptability of the policy instrument of take-overs according to specific circumstances.

The Indian experience of nationalisations has shown that the choice of methods of acquiring private enterprises by public agencies have contributed significantly to determination of the real character and meaning of various nationalisation decisions. These decisions were influnced by a variety of constitutional, legal, bureaucratic, political, economic, financial and managerial - organisational factors. The paramount need of not disturbing the basic institutions of private property - private enterprise, including th confidence and motivational level of the enterpreneurs, even while substituting public ownership, control and management for private one, was met quite considerably by the specific choices concerning methods of take-over. The innovation of paying management compensation, implying that management is more of a right and privilege, partaking some features of private property than of a function and responsibility is an illustration of the manner in which the rough edges of nationalisation were smoothened in order to make it fit in within the

four corners of an essentially capitalist economy. The contradiction of a system which pays both for discharging managerial functions as well as for relieving management of its tasks was certainly lost sight of in the process of reconciling a private property - private enterprise system with elimination of such property and enterprises in Certain spheres for some specific collective purposes.

However, the range of choices offered by the methods for nationalisation also indicate the flexibility of this policy instrument to answer micro and macro level needs at a historical juncture. Even when well-articulated, explicit theoretical-conceptual schema do not exist for working out and analysing the implications of alternative methods for giving effect to nationalisation, the actual task of making such choices forced some decisions, albeit *ad hoc* ones. A long chain of such method related decisions rooted in a common milieu showed some systematic patterns with theoretical and practical significance. In any case, the availability of choice of alternative methods from among various methods with substantive implications contributed to the acceptance of nationalisation as a policy option consistent with the basic framework of capitalism.

TABLE I

DIFFERENT METHODS ADOPTED FOR NATIONALISATION IN INDIA
(Historical, book values)

(Rs. Crores)

Sl. No.	Method & Number of Firms	P.U.C.	Net Worth	Assets	Turnovers Financial	Turnovers Non-Financial	Consideration/ Compensation
1.	Nationalisation of an entire Industry/service by an Act of Parliament 352(F) (946 NF)=1298.	291.3471 (57.6)	50.2282 (14.97)	782.0590 (7.91)	7675.00 (69.77)	-	127.5571 (26.36)
2.	Nationalisation of many firm of an Industry by An Act of parliament 25F+103NF=128.	64.2091 (12.7)	64.2376 (19.14)	7197.8451 (72.85)	3215.5634 (29.23)	-	149.9756 (30.99)
3.	Nationalisation of an Individual Firm by An Act of parliament 2F+33NF=35.	105.6689 (20.89)	191.7858 (57.15)	1847.4967 (18.70)	87.9500 (0.8)	1208.7925 (91.29)	200.3047 (41.4)
4.	Nationalisation under an Enabling provision of an existing law 27F.	1.3207 (0.26)	2.3606 (0.70)	17.0078 (0.17)	22.4565 (0.2)	-	0.814678 (0.17)
5.	Nationalisation by share Acquisition 19NF.	38.6807 (7.64)	17.9061 (5.34)	30.5054 (0.31)	-	96.9977 (7.32)	5.00 (1.03)
6.	Consequential Take-over of subsidiaries 10NF	4.6855 (0.93)	9.0904 (2.71)	3.6555 (0.03)	-	18.3365 (1.38)	

NF = Non-financial
F = Financial.

(Figures in paranthesis are percent of column total; may not add up to 100 owing to rounding off).

TABLE II

DIFFERENT METHODS ADOPTED FOR NATIONALISATION
(Rs. crores in 1970-71 prices)

Sl. No.	Method	P.U.C.	Net Worth	Assets	Turn-over: Financial cost	Turn-over: Non-financial cost	Compensation/ consideration
1.	Nationalisation of an Entire Industry/service by specific law.	231.87 (55.19)	73.3 (20.21)	1195.16 (10.92)	7641.6 (72.0)	-	114.98 (27.50)
2.	Partial Take-over by Legal Enactment.	54.24 (12.19)	107.43 (29.62)	5596.57 (51.15)	2724.97 (25.68)	-	133.43 (31.92)
3.	Individual firms take-over by a specific law.	81.86 (19.48)	155.40 (42.84)	3931.68 (35.93)	217.70 (2.05)	703.17 (86.58)	160.01 (38.28)
4.	Take-over under the enabling provisions of an existing law.	1.80 (0.43)	3.07 (0.85)	173.17 (1.58)	28.43 (0.27)	-	1.21 (0.29)
5.	Take-over by share-acquisition	47.51 (11.31)	17.63 (4.86)	4.14 (0.38)	-	94.86 (11.68)	8.22 (1.97)
6.	Consequential Take-over of subsidiaries.	2.83 (0.67)	5.80 (1.60)	2.36 (0.02)	-	14.13 (1.74)	

(Figures in paranthesis are percentage of column totals; rounding off may prevent totals from being 100)

NOTES OF REFERENCES

1. This section on the Constitutional position concerning nationalisation is based on Durga Das Basu, Shorter Constitution of India, Eighthed. Prentice Hall of India, New Delhi, 1981.

2. A distinction was made between "individual acquisition" (expropriation) and "general acquisition' (nationalisation) in the course of the work of the Constituent Assembly. Article 31 dealt with both the types of 'nationalisation'. See, the Constituent Assembly Debates, 1949, official Reports. Vol. IX, pp. 1192 and 1287.

3. For a different type of classification of methods of nationalisation, See Ramkistayya, V., "Problems Related to Nationalisation of Industry, " A Study based on Indian Experience during 1947-76, An Unpublished Ph.D. Thesis of Osmania University, 1977. Chapter III. pp.36-45.

4. Ramkistayya V., op.cit., Chapter IX. pp.370-386.

5. See the discussion in the earlier parts of the Chapter.

6. For instance, management of the coalmines was taken - over prior to nationalisation mainly in order to garner information.

7. That nationalisation was used as one among many alternative policy instruments and had to be related to the specific needs of a given situation was very clearly spelt out by Moinul Haque Choudhury in the Lok Sabha in the course of a debate on a private member's resolution on "Nationalisation of Leading Industrial Houses". He said, "--- whereas Professor Mukerjee thinks of only one instrument, viz. nationalisation, the Government thinks of many instruments, ---- Government will always be guided by the intrinsic efficacy and relevance of all policy instruments, including nationalisation in a given situation. "Lok Sabha Debates, Vol. XV, No.48, 1972. Columns. 263-264. A very telling example of the flexibility of nationalisation as a policy instrument can be seen in the case of subsidiarisation of

State-associated banks of former princely States rather than their outright merger with the State Bank of India in order to avoid additional burdens on the wage-bill.

8. This is borne out by Statement like the following made by the Prime Minister, Indira Gandhi, "My views on nationalisation are that we should not do it unless it is a must. "Interview given to the Editor, Illustrated Weekly of India, January 26, 1975, Bombay.

9. Ramkistayya, V. op.cit., narrated the story of the evolution of thinking over the question of payment of management compensation as follows :

1B [illegible] of [illegible].

"At the time of incorporation/article 31 of the constitution Nehru and Govind Ballabh Pant argued that taking over of management of enterprises in order to secure their proper management was not "acquisition" of property, and, therefore, it did not require payment of compensation envisaged in Clause (2) of article 31. But this assumption was negativel by the Supreme Court in Dwarkadas Vs. Sholapur Spinning and Weaving Company. (ref. A.I.R. 1954, S.C. 119), Popularly known as the Second Sholapur Mills Case.

"The Supreme Court upheld the contention of the shareholders and declared: " The ordinance overrides the directors, deprives the shareholders of their legal right and privileges and completely puts an end to the contract of the managing agents. . . . In this situation it is not possible to subscribe to the contention . . . . .that the effect of the Ordinance is that the Central Government has taken over the superintendence of the affairs of the company and that the impugued legislation is merely regulatory in character. In the present case practically all incidents of ownership have been taken over by the state and all that has been left with the company is paper ownership. The court, therefore, held that the taking over of the management under the ordinance was in effect "deprivation of property" within the meaning of article 31, and since it did not provide for payment of compensation as required by that article it was unconstitutional.

" To overcome the wide of interpretation placed by the Supreme Court on the expressions "deprivation" and "acquisition" of property in article 31, the Parliament by the Constitution (Fourth Amendment) Act, 1955, added the following subclause to clause (1) of article 31A.

Article 31A (1) "Notwithstanding anything contained in article 13, no law providing for (the taking over of the management of any property, by the State for a limited period either in the public interest or in order to secure proper management of the property. . . .
shall be deemed to be void on the ground that it is inconsistent with, or takes away or abridges any of the rights conferred by article 14, article 19 or article 31. . . ."

" The addition of the above sub-clause permitted enactment of laws without providing for payment of compensation for taking over of management of companies for a limited period either in the public interest or in order to secure their proper management. The exemption is thus applicable to management take-over laws which envisage <u>eventual banding over of the companies back to the owners</u>. But, if the object of management take-over law is to evntually transfer the ownership to the govt. i.e. if the take-over of management is pending nationalisation, it has to provide for payment of compensation.

"Accordingly, the laws providing for taking over of management pending nationalisation had to contain provisions for payment of 'compensation', But in the Jayanti Shipping Company & the Indian Iron and Steel Company the management take-over Acts declared that the take-overs were for a limited period and for the purpose of securing proper management. They were thus covered by sib-clause (4) of Clause (1) of article 31A, and therefore, were not required to provide for payment of "compensation". These Acts, therefore, did not incorporate any provisions for payment of "compensation" for taking over of management.

"Take-over of management under the Industries (Development and Regulation) Act, 1951, does not entail responsibility for payment of "compensation" because all such take-overs must be for a limited period (ref. to Section 18A (2) of the Act) (after which the management of companies would be handed over back to the shareholders) and wither in the public interest or to set right the affairs of the

Companies, and therefore, are covered by sub-clause(a). The management of Braithwaite and Company and the Refractor Plant of the Assam Sillimanite was taken over under this Act.

"Thus, under the constitutions as it stood in 1976, the Govt. had to pay compensation if the take-over of management companies a prelude to nationalisation unless it was prepared to hide its intention to nationalise by making a declaration that the take-over was for a limited period, or the Parliament involved article 31C (but it was possible only after 25th Amendment, 1971) while passing the take-over law". pp.372-379.

NATIONALISATION OF RESERVE BANK OF INDIA.

(A PART OF THE REPORT ON THE ICSSR PROJECT "NATIONALISATION IN INDIA'S NON -AGRICULTURAL SECTOR SINCE 1947 - A STUDY IN POLICY OPTIONS".)

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Nationalisation of the Reserve Bank of India

Nationalisation of the financial institutions in India started with the transfer of the Reserve Bank of India to public ownership by means of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. The law came into force with effect from Ist January, 1949. In the present Chapter, the take-over of the RBI and attendent circumstances are analysed on the basis of various public documents, particularly the official history of the RBI. Part I presents the salient features of the nationalisation law and the facts concerning change of ownership. This provides the basic picture concerning the nature of the act of transfer of ownership. In Part II, the historical evolution of thinking on alternative patterns of the Bank's ownership is analysed. Here we come across some pre-independence controvercies on the issue. In the next part, the governmental processes concerning the enactment of the nationalisation law and the role and attitude of the concerned administrative and public authorities are discussed. We conclude with an assessment of the socio-economic content of state-take over of the RBI.

I

The Reserve Bank of India, as the central bank of the country, is a relatively new institution, unlike similar

institutions in some other countries like Sweden, England etc.

Though legislation to set up the Bank was introduced in January 1927, it was enacted in March 1934,[1] and the Bank was inaugurated a year later in 1935.[2] As the culmination of a long controversy to which we will make references later, Government decided in 1947 to nationalise the Bank.[3]

As the official history of the RBI put it, "13 years and 9 months after its establishment, the Bank was transformed into a State-owned institution."[4] Subsequent to nationalisation a term not used in the Act - a new Board was constituted. The share capital of the RBI on the day of nationalisation was Rs. 5 crores, which was divided into 5 lakh fully paid-up shares of Rs.100 each.[5] Upto the end of March 1951, compensation was paid in respect of 4.67 lakh shares which amounted to Rs.5.54 crores.[6] It is apparent that the compensation amount exceeded the fully paid-up share capital of Rs.5 crores.

It was announced in 1948 that the "Government's intention was to acquire the shares 'at the average of the monthly market value of the shares during the period March 1947 to February 1948 taking the opening quotations for each month', 3 percent long-dated stock of equivalent value of appropriate maturity, was to be used in exchange.[7]

There was a good deal of controversy over the issue of compensation. The shareholders considered the period for which average value of shares was to be taken as unjust to them, as prices witnessed "a heavy and continuous slump" on account of the Government's budgetary policies.[8] They also wanted, on the basis of an analogy with the case of Bank of England, the maintenance of the shareholders' revenue from their investment in Bank shares.[9] Thus while on the basis of the Government formula, Rs.118.10 was to be paid for a share of par value of Rs.100, the shareholders wanted a sum of Rs.159.11 per share. The RBI's Board suggested a middle path but the Government adhered to their original formula.[10] However, with a view that "the nationalisation scheme would be better received by the public", dated loans of a slightly shorter maturity were issued by way of compensation payment.[11]

It is clear that in so far as the shareholders received a sum higher than the face value of the shares they had subscribed to, no capital loss in nominal terms was caused and on the day of take-over a sum larger than the share capital was paid by the Government. Technically, the shares were 'compulsorily acquired', but in so far as the full market price of the shares was paid, the acquisition acquired more the character of a commercial deal than that of a nationalisation. Thus, "of a total of 5 lakh shares, compensation at the

rate of Rs.118.10 was payable in respect of 4.98 lakh shares, i.e. excluding the 2,200 shares initially allotted to Government for disposal to Directors at par and which were to be acquired at par."[12] The total compensation payable for a fully paid up share capital of Rs. 5 corre amounted to Rs.5.90333 crores.

Many businessmen belonging to large industrial houses found a place on the RBI's Board when it was reconstituted following nationalisation, important among them being Shri B.M. Birla, Sir Shri Ram, Sir Purshotam Das Thakurdas, Sir Manilal B. Nanavati, Sir R.P. Masani, etc.[13] Thus, in terms of reduction of existing income and wealth inequalities i.e. chopping off the heights, and in reducing the economic power commanded by the large business houses, the take over of the RBI could not make much of a direct impact.

II

A historical account of the evolution of the ownership pattern of the RBI may help in understanding the significance of its take-over by the State.

The Reserve Bank of India was, in terms of the provisions of the 1934 Act, a private, shareholder's bank. "A very wide

distribution of the ownership of the Bank's share capital was envisaged through the demarcation of the country into five geographical areas --------and by assigning a specified portion of the capital to each of those areas -------In order to bring the shares within the reach of the common man, the value of each share was fixed at Rs.100."[14] The decision to set-up the bank as "a private shareholders' bank" apart from being "in consonance with the spirit of the times"[15] was motivated by a desire to "make it free from active political control in its day-to-day management."[16] The idea seemed to be that since "the largest user of money in a country is the Government" the function of issuing currency and using of currency should be kept separate so that the Government do not obtain any special privilege in obtaining 'actual tokens of money'.[17] Thus the purpose in setting up the RBI as private sector bank with the Government having "sufficient powers for intervention in the Bank's policies" was to combine "the advantages of private management" with "those of State Control."[18]

It would be appropriate to mention that the majority of the 28 member Joint Committee on the infructuous Gold Standard and Reserve Bank of India Bill, 1927, recommended that "the capital of the Bank should be wholly subscribed by Government."[19] It argued a strong case against a private

shareholders bank as it would "tend to be controlled by vested interests, and would therefore fail to secure the confidence of the Indian public." So much so that "its utility to the public might even be endangered by a conflict of interests within the management of the Bank between Indian and external capital."[20] The then Government were rehemently opposed to this scheme and ultimately withdrew the Bill.[21]

It appears from the above that the question of nationalisation of the RBI was, for long, a controversial issue and the earlier attempts to set up a central bank did not succeed, on account of, among other things, a sharp difference of opinion on the question of public or private ownership of the RBI.[22]

Indian nationalist opinion had for long felt the need for a central bank under public control. The history of the attempts by the British Government to set up a central bank for India did not succeed owing to sharp differences between the nationalists and Indian business classes on the one hand, and the Government on the other, regarding the nature, form and extent of public control over the proposed bank.[23] Thus, there is little wonder that with the transfer of power in 1947, the demand for the nationalisation of the RBI became strident and irresistible.[24] Winding up the debate on a private member's resolution recommending take-over of the RBI, the

Finance Member observed that, "there was a general desire for the nationalisation of the Bank.[25]

The case for nationalisation of the RBI seemed to rest on two types of considerations. Among the first category of argument were certain a *priori* views concerning the nature of monetary authority and organisation in any society. Since money represents command and claim over resources of the society control over policies and processes concerning the quantity of money and methods of its allocation must remain under the control and ownership of public authorities. This is the general ground for State owned central banking in many parts of the world. In the specific context of the RBI too, this argument was advanced.[26] Private control over such critical institutions was all the more undesirable and dangerous, because following the immenent laws of a private enterprise market economy, private ownership and control would tend to concentrate in ever fewer hands. It was pointed out with reference to the RBI that there was the tendency of the Bank's shares to concentrate in one part of the country and in the hands of a smaller and smaller public."[26]

These arguments were also a refutation of the validity of those arguments given against State-owned central banking which maintained that "the Government as the chief user of money should not themselves be the authority controlling the

creation of money, but that when they needed money, they should have to go to an independent authority and make out their case, just as any private individual had to do."[27] This was the major argument given by George Schuster as seen earlier in the case of the RBI. In fact, such a separation did not succeed in restraining the Government of India from expanding money supply in a relaxed manner during the War.[28]

Another type of arguments against privately controlled central banking are largely empirical. They attempt to show how in specific cases the course of policies followed by the private central bank failed to meet specific social and economic objectives. Such a plea against the RBI's operations as a shareholders' bank were made both inside the legislative Assembly and outside. It was pointed out that the RBI had failed" (i) to create a discount market and a bill market in the country (Section 17(2)), ii) to abolish remittance charges, and iii) to make recommendations to Government for a permanent basis for the Indian monetary system and permanent measures for monetary standard (Section 55 (2)."[29] Similarly, failure to link up indigenous bankers and country banks with the RBI and the failures on the front of agricultural credit and support to smaller banks were also pointed out.[30] Independent of the fact whether the RBI could have performed better under an alien rule and the limitations of the Act

itself,[31] the fact remains that the actual performance of the Bank helped in creating an adverse climate of opinion against private central banking.

Given the historical circumstances in which the RBI came into existence as a private bank, persistent opposition to its private character and the strengthening of this opposition in the wake of indepndence, there is little surprise that the RBI was the first important economic institution to be taken-over by the Government after independence. In fact, given the already existing level of government control over its policies,[32] it was not possible to meet the challenge posed by the protagonists of nationalisation by increasing public or social control over banks. As seen above, the manner and extent of governmental control over the RBI was cited as a negation of the plea to keep public control over money supply at a low level. Meanwhile, there appeared "the general trend towards nationalisation of central banks abroad"[33] which influenced the trend of public opinion in India in favour of nationalisation, particularly in the wake of the announcement in 1945 of the proposal for the nationalisation of the Bank of England."[34]

III

In view of such indications positively favouring nationalisation, it is interesting to see how the official machinery moved to process the demand and determine the Government's attitude and tactics on this issue. In 1946, the Finance Department anticipated that in the course of the debate on the Banking companies Bill, the question of RBI's ownership may crop up and they forearmed themselves with the views of the RBI on the possible advantages and disadvantages of nationalisation."[35] The Bank's officials were against nationalisation and argued that it would impair efficiency. Since they considered that "any full-fledged large-scale economic planning was a remote possibility"[36] they considered the case for nationalisation weak and inconclusive.[37] In response to a query again in 1947, the Governor of the Bank, advised the Government to adopt a non-committal attitude.[38]

In 1948, the Governor of the Bank was asked to give his personal views on the nationalisation issue to the Government.[39] The Governor, Shri C.D. Deshmukh was quick to grant that the views of the Bank's Board "will not be entirely free of the suspicion of being biased in their own interests."[40] In making this point it seems to be implicit that the interests of the Board, consisting mainly of businessmen and

bureaucrats, would be badly served by nationalisation. He argued that though "it did not much matter whether the Bank was run as it was then constituted, or was nationalised"[41] it "was neither called for nor was it likely to be beneficial."[42]

His argument seemed to be that, independent of the ownership of the Bank, the overall monetary and credit policy was bound to be in accordance with the views of the Government. But with the introduction of members on the Board influenced by political considerations and loss of "the fruits of the seasoned and matured experience of well-tried businessman"[43], the Governor thought that until the pattern of the economy and the strength of its administrative machinery become clear, nationalisation may be shelved.[44]

The central Board of the Bank went a step further and, despite knowing the decision of the Government to nationalise the Bank came out with a unanimous resolution opposed to the Bank's take-over.[45] However, in view of the Government's decision to go-ahead with nationalisation, it appears that the Bank's pre-nationalisation management changed its approach and tactics towards, the question of ownership. They prepared a memorandum, wherein it was maintained that

presently the measure of nationalisation "need not have a wide scope" and "should be confined to making the minimum amendments necessary for symbolising the change of ownership."[46] Thus it was suggested that "the minimum modifications" should be made, "leaving the operational and other features of the existing organisation undisturbed."[47]

On the issue of compensation too, a position greatly favourable to the existing shareholders was taken. About Government's directives to the Bank, it was suggested that the former should specifically own up their responsibility for the directives they give.[48] Following the trend of discussion over the 1927 and 1933 Bills, the Central Board's memorandum suggested some representation to the members of the legislature. However, there was a volt face and the Government under the control of national leadership retained the disqualification for the inclusion of members of Central Legislature on the Bank's Board![49] As seen above, as a matter of fact, the businessmen, including those coming from the larger industrial houses, retained after nationalisation their seats on the Bank's Board.

Thus, the structure and personnel of the Bank remained largely fashioned after the days of the private shareholders' ownership. The take-over act introduced, as the memorandum

by the outgoing management wanted, only those charges which symbolised the formal change of ownership. As the Finance Minister said in his reply to the debate over the Bill, "although the framework of the administrative authority is being changed, we would see to it that the RBI continues to function as a fully autonomous body and that the counsels of different interests which find representation at the moment through election on the management, would still (i.e. after take-over KNK) be available to it, although the institution is being nationalised."[50]

To the extent the Bank under the earlier dispensation was accused to be "the slave - the maid of the old lady of Threadneedle Street - the Bank of England",[51] a significant change was introduced "enabling the Bank to hold, besides sterling securities, other foreign securities, as a part of the Issue Department Reserve and also in the Banking Department."[52] This indicated the end of the Indian economy's special relationship with Great Britain and the impact of India's membership of the IMF, a development in keeping with India's new place in the world capitalist economy.

It follows from the above that the discrepancy between the views of the Bank's bureaucracy and the new national government was confined to the basic question of

ownership of the Bank. Once the latter made its decision to go ahead with the transfer of the Bank's ownership to public authorities, the Bank's bureaucracy, in association with the business interests represented on its Board prior to take-over changed their tactical stance to ensure that the move', 'mischief' in terms of effective control and actual policies should be minimised. For this three important points concerning i) compensation; ii) composition of the Board so as to keep the directly elected representatives of the people out and continue with the representation of private sector trade and industry; and iii) role of governmental policy directives, were so settled that the move effected largely a symbolic change and the voice of business interests and their expertise "would still be available to it, although the institution is being nationalised," as the then Finance Minister assured.

Therefore, it appears that the nationalisation of the RBI could not bring about any of the conventional socio-economic and political effects generally associated with radical policy moves like this. It did not cause any misgivings to private sector. In fact, the general trend of thinking of the Post-Independence government in their initial days of power, as we see elsewhere, on the question of nationalisation and changes in property relations in the non-agricultural sector (see elsewhere the references to the debates in the Constituent

Assembly, reactions to the Report of the Congress Economic Programmes Committee, the Industrial Policy Statement of 1948, and some views expressed by Jawahar Lal Nehru specifically on the question of nationalisation) were either adverse or non-committal. The influence of neo-classical economic thinking tinged with fabianism in governmental quarters tended to give importance to the growth of production prior to or independent of distribution, private enterprise and managerial constraints in the governmental sector. These priorities rendered a prior transformation of property relation unnecessary and self-defeating. In this framework and approach of public policy, the take-over of central banking could not have acquired greater socio-economic content than what it had.

Notes

1. RBI, History of the Reserve Bank of India.(1935 - 1951), RBI, Bombay, 1970., p.3

2. Ibid. p. 121

3. Ibid. p.517, 527

4. Ibid. p. 505

5. Ramkistayya, V. op.cit.

6. History of RBI, op.cit., p. 528

7. Ibid. p. 517. It is mentioned by Ramkistayya that the Act did not mention the basis for determination of compensation payable. op.cit. However, a specific decision in this respect was announced, as noted in the text.

8. Ibid. p.526

9. Ibid. p. 526

10. Ibid. pp.526-527. It is interesting to note that at the time of the consideration of the take-over Bill, Shri K.T. Shah suggested an amendment providing Rs.114 per share as compensation. This figure was work out by applying Section 57 relating to liquidation of the Bank, stipulating that compensation to a shareholder was not to exceed the paid-up value of a share by one percent for each year after the Act came into force. The Government did not accept it. Ibid. p. 525

11. Ibid. p.527

12. Ibid. p. 527

13. Ibid. p. 533

14. Ibid. p.84

15. Ibid. p. 84

16. Ibid. p.84

17. Participating in the debate on the motion to refer the RBI Bill a Joint Select Committee, Sir George Schuster, the then Finance Secretary, made this point quite emphatically. Ibid. p.84 quotes him to this effect.

18. Ibid. p.84.

19. Ibid. pp.28-29

20. Ibid. p.29

21. Ibid. pp.32-33.

22. For details See, Ibid. pp.26-35.

23. Ibid. pp.28-39. "The debate on the Bill which followed showed that by and large, the general opinion was against a shareholders' bank, notable among those who opposed being Messrs. Madan Mohan Malviya, R.K. Shanmakham Chetty, Jamnadas Mehta, Purshotamdas Thakurdas and Lala Lajpat Rai." - while some wanted' national control', other were against Government and Legislative Control. Some favoured representation of legislature. The then Government was totally opposed to all this, to the point of being prepared "to lose the Bill altogether rather than to accept that proposal as it stands." Ibid.p.31.

24. "The demand for nationalisation became stronger after the installation of the Interim Government at the Centre in Sept. 1946; a non-official resolution urging the nationalisation of the Bank was moved in the Legislative Assembly in Feb. 1947. Mr. Liaquat Ali Khan, the Finance Minister of the Interim Government, announced Government's decision to nationalise the Bank in the course of his budget speech, on February 28, 1947. Ibid. p. 505

Shri Sarat Chandra Bose, leader of the Opposition in the Legislative Assembly, speaking on the Finance Bill asserted that "nationalisation should be the keynote of all economic development in India" and pleaded for the take over of Bank "There was a strong demand by the legislators and a section of the Press for the nationalisation, interalia, of the Bank. Ibid.pp.506-507.

Shri Mohan Lal Saxena gave notice of a Resolution seeking nationalisation of the RBI, Imperial Bank of India "as a prelude to nationalisation of Banking and Insurance in India. Ibid. p. 509. In February 1947, Mr. Tamizuddin Khan moved a Resolution recommending take-over of the RBI. Ibid. p.510. It had the support of both Congress and Muslim - league. Ibid. p.510.

25. Ibid. p.511.

26. Tamizuddin Khan, in arguing the Resolution referred to the above said, "the monetary organisation of the country should be a national concern and should not be confirred to a limited number of shareholders who are none but capitalists, Ibid. p.510.

27. Ibid. pp.510-511.

28. This was pointed out by Shri Manu Subedar in the course of the debate on Mr. Tamizuddin Khan's Resolution. See Ibid. p. 510.

29. Ibid. p. 510

30. Ibid. p.511.

31. The latter was pointed out by Shri K.G. Ambegaokar, a Bank official. Ibid. P. 511.

32. Discussing the 1934 Act, it was said that "Provision was made for close cooperation between the Bank and the Government in vital policy-making spheres and for the exercise of a measure of Government influence in the composition of the Directorate of the Bank; including its chief executive, namely, the Governor and the Deputy Governor". Ibid. p.85. For details, See pp.85-88. Also p.508 setting forth the views of the Research Deptt. of the Bank.

33. Ibid. pp.505-506

34. Ibid. p.506.

35. Ibid. p.507

36. Ibid. p.507

37. Ibid. pp.508-509.

38. Ibid. pp.509-510.

39. Ibid. p.514.

40. Ibid. p.515.

41. Ibid. p.515.

42. *Ibid.* p.515.

43. *Ibid.* p.516.

44. *Ibid.* pp.516-517.

45. It said, "it will not be in the interests of the country to nationalise the RBI ......" p.518.

46. *Ibid.* p.519, emphasis ones.

47. *Ibid.* p.519.

48. *Ibid.* p.520.

49. *Ibid.* p.522.

50. *Ibid.* p.524, emphasis ours.

51. *Ibid.* p.524.

52. *Ibid.* p.520.

Nationalisation of Air Transport in India.

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NATIONALISATION OF AIR TRANSPORT IN INDIA

Air transport services were the first major economic activity which were nationalised in their totality in the year 1953*. This was also one of the newest modes of transport in India which began its career in the closing years of the 1920s.

From this humble beginning to the nationalisation of Air Transport in 1953 alongwith the setting up of two public sector corporations to run internal and external air services of India is a story of large private initiatives, many public interventions and many fluctuations which this infant mode of transport witnessed in its short span of life.

The basic issue in the development of air transport services in India was, on the one hand, one of keeping in the front line of technological development and, on the other hand, of reconciling this complicated, costly and highly capital and import-intensive service with the narrow base of industrialisation and resultant small high income clientele. In between these two extremes were considerations of defence, administrative exigencies, needs of other emergencies and of speedier postal service. Although it is true that the

economic condition of the country had so far enabled a microscopic part of the total population to avail themselves of the facilities of air transport, the need for a comfortable and time saving mode of transport for either those who afford it or whose work requires it, over and above its externality in the form of technological advancement, impressed upon even the colonial government the need to give encouragement to enable it to find a firm base in the Indian economy. However, on the other side, was the stark logic of inadequate traffic and low load factor which created serious problems of economic viability and self-sufficiency for air transport services.

The war time boom and huge profits alongwith an easy and cheap availability of disposal air-crafts, spares and ample availability of technical personnel, and ground facilities led to over expansion and mushrooming of air companies vying with each other for limited air routes.

How during these fluctuations the air transport services were aided, supported, regulated and subsidied by the State before it resorted to its ultimate take-over as also the nature and form of the decision to take-over air transport companies are important questions needing investigation and analysis. So far very little work is available dealing with these questions and various options

which were available before the choice was made in favour of nationalization.

In the present exercise, we intend to examine these issues on the basis of various facts and information we could collect from official as well as non-official sources, mainly some official reports and Parliamentary debates and the Select Committee Report on the Air Corporations Bill 1953. Part I describes the process of take-over of air services alongwith an analysis of some important features of the law enacted for the purpose. In the second part of the paper, we will give a brief history of the growth of air transport service in India in which a pointed reference would be made to the factors and forces which shaped the growth of this mode of transport. Alongwith this account we will try to analyse the problems which emerge in the process of the evolution of this activity in India. This background may enable us to turn our attention in the next section, to a detailed analysis of various public interventions made for controlling, regulating and facilitating the growth of air transport services.

On this basis, we will attempt an examination of the various alternatives to the nationalization of civil aviation in India. This analysis should throw some light on the need and necessity for nationalization as also

provide a basis for understanding the forces and ideological environment which contributed to the nationalization of Civil aviation in India.

I

The air-transport industry was taken over by the Government by means of the Air Corporation Act, 1953 (No.27 of 1953). The decision to go in for nationalisation of the scheduled air-services operating in India was taken on 1st July 1952.[1] The Bill was referred to a Select Committee[2] and subsequently passed by the two Houses in March 1953. The Bill received President's assent on May 28, 1953.[3] The two corporations which took over the undertakings of the private air companies viz. Indian Airlines and Air-India International came into formal existence on 15th June 1953 and August 1, 1953 respectively.[4]

The law did not use the term 'nationalisation'. It provided for acquiring, compulsorily, the undertakings of nine air companies in business at that time.*[5]

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*The names of the companies compulsorily acquired are as follows: Airways (India) Ltd. Himalayan Aviation Ltd., Kalinga Airlines, Bharat Airways Ltd., Air India Ltd., Air Services of India Ltd., Deccan Airways Ltd., Indian National Airways Ltd., and the Air India International Ltd.

The stated purpose of take-over, as stated in the law was "to make further and better provisions for the operation of air transport services".[6] Not only were the existing Scheduled air transport operators' all assets, liabilities and businesses alongwith all their rights, encumberances and contracts were taken-over, but Section 18 of the Act also provided for the prevention of "any scheduled air transport services from, to, in or across India" under penalties to any one other than the two public corporations set up for the purpose.[7] However, non-scheduled operators, which numbered 11 and did 6919.56 and 1304855 hours of flying in 1948 and 1949 respectively were allowed to remain in private sector and were not covered by the prohibition under section 18, for their non-scheduled operations.[8] It meant that commercial operation of non-scheduled air services was permitted in the private sector. The Air India International was constituted by the transfer to it of the undertakings of the Air-India International Ltd. All the other companies' undertakings were transferred to the India Airlines.

It may be pointed out that one of these nine companies was not a totally private air company. The Air-India International Ltd., may well be considered a joint sector company. This company, which was registered in March, 1948 with a paid-up capital of Rs. 2 crores, came into existence

as a result of the approval of a proposal made by Air-India, a Tata Company, to the "The Government of India.[9]" "The Government of India held 49 percent of the capital of the Company with the option to acquire a further 2 percent at any time. Air-India has participated in it to the extent of 10 percent, the remaining shares being subscribed by the general public. The Government of India have undertaken to make up the losses of Air-India International for a period of 5 years. Tata Sons Ltd. are the secretaries and Treasurer of Air-India International and Air India its Technical managers. Air-India is also Air-India International's Chief Booking Agent in India."[10] Thus for all purposes of control and operations, the Air-India International was a sister concern of Air-India, a Tata Company. The Government contributed almost half of its PUC and undertook to recoup the losses which its private management may incur. Public resources, private management and control, and public commitment to meet all the losses of an unspecified magnitude i.e. 'socialised losses' were the unique features of the "joint sector" operation of the Air-India International. Its take-over and constitution of a public corporation, namely, Air-India International, is thus conversion of private capital into

public property as a matter of secondary significance. Its main contribution lies in the substitution of public control for private control. The five year period during which the government undertook to make up the losses was already over by 1953. The act of nationalisation foreclosed the question of the continuation of this arrangement; now it became a public corporation.

Compensation

The Act provided for payment of compensation to those companies whose undertakings vested in the two corporations. In a schedule to the Act the principles were laid down for determining the amount of compensation. The erstwhile companies were given the right to approach a specially constituted Tribunal in case they were not satisfied with the amount of compensation. A specified share of the total compensation was paid in cash; the rest was paid in terms of Central Government guaranteed five year bonds bearing 3½ percent interest per annum.[11]

The principles for determining the amount of compensation was the aggregate written down values of various assets which satisfied some criteria of fitness plus certain *ad hoc* specified sums for various assets minus the liabilities of the air companies.[12]

According to the Balance Sheet of Indian Airlines Corporation as on 31st March, 1954, the total compensation (being the excess of assets over liabilities taken over on 1st August 1953) amounted to Rs.3.024 crores.[13] Out of this Rs.2.4569 crore was to be paid in the form of bonds and Rs.56.72 lakh in the form of cash. The companies were not satisfied with the above offer and appealed to the Tribunal. As a result, ultimately, a compromise was reached leading to an increase in compensation amount by Rs.16.53 lakh.[14] Thus the total compensation amounted to Rs.3.19 crore. Air India International Ltd. was given a compensation of Rs.2.82 crores. Himalayan Aviation was not given any compensation.[15]

The issue of compensation amount for the air companies was a major bone of contention among the interests involved. It figured prominently in the Parliamentary debates as also in the Report of the Select Committee on Air Corporations Bill, 1953. Many members gave their notes of dissent in which the compensation issue figured prominently.[16]

It was pointed out that the principle incorporated in the law tended to favour some companies while others became worse off. It was pointed out that in some cases the amount of compensation would be just about 3 percent of paid up capital.[17] This would make the ordinary shareholders

forgo a good part of their investment and would produce an effect inimical to further investment. A number of difficulties involved in using market value of the shares were pointed out, since some shares were not quoted and there was no market valuation of preference shares. In view of the fact that the then purchase price in world markets of the assets taken over was estimated at Rs.10 crore, it was made out that a better deal ought to be offered to the share-holders.[18] It was further suggested that even if 50 percent of paid up capital was given by way of compensation, it may satisfy the shareholders without imposing too heavy a burden on the Government.[19] The PUC of eight of the nine air companies forming IAC (excluding Kalinga airways) came to Rs.6.30 crore.[20] Their loans stood at 1.49 crore. The actual compensation amount, as seen above, was of the order of Rs.3.19 crore. The total amount of compensation was then only about half of the PUC, being 50.63 percent of the latter.

However, a point in the compensation controversy also related to its discriminatory nature. The compensation principle was unevenly favourable among the various air companies.[21] In fact, a note of dissent by K.A. Nambiar and others went on to maintain that "the quantum of compensation provided in the bill is unduly high and is

intended to make good the losses incurred by the companies. That is why Air-India's (Tata's) shares have jumped by 200 percent because it is they who are getting the best of the deal. Aircraft and spares which were bought at very cheap prices from disposal stores and have already been written down to Re.1 by charging heavy depreciation rates, are now to be depreciated at far lower depreciation rates which neither the rate of obsolescence of aircraft nor the actual written down value justifies. There is danger that spares which have been declared redundant and useless will again be paid for at the fantastic rates of 80 percent and 90 percent of the cost price."[22]

Another important thing to be taken into account is that the First Plan provided Rs.3 crore by way of compensation for compulsory acquisition of air companies.[23] The principles as adopted could not ensure that the compensation amount is kept within this limit. For both the corporations, it amounted to, as seen above, Rs.6.02 crores. The principles for fixation of compensation also did not take care to ensure that the prospects for possible manipulations by the companies are minimised. As 10 instances of "unscrupulous activities" given by the IAC in a pamphlet show a number of such manipulations were resorted to by the management of companies, which added unreasonably to the amount of compensation and deprived the successor public corporations

of their potential properties and resources.[24] The law did not provide safeguards for protecting the interests of the share-holders of the air companies.[25] Thus some members of the Select Committee apprehended that "the entire compensation amount is going to be misappropriated by a few who are at the helm of affairs of these companies."[26] Thus "the amount (of compensation) is going to be far exceeded, and will go to fill the pockets of the big houses."[27]

Another group of M.Ps. argued that "it would be in the interest of the national exchequer and also be fair to the share-holders of the company if the shares of the company are compulsorily acquired at their market values as on July 1, 1952".[28] They argued that it is irrelevant whether this principle would be hard on the companies, whose undertakings rather than shares were acquired. They said, "It is not a question of being hard or otherwise. It is primarily a question of being just to the concerned."[29]

A comparison of the market value of these companies' shares towards the end of 1952 with the compensation value per share by the IAC, shows the extent to which an excessive burden was placed on the public exchequer (See Table 1). This compensation clearly shows that on the basis of market value of shares the Tata's would have been worse off both

in respect of Air-India Ltd. (Rs.54.5 market value against the face value of Rs.100) and Air-India International Ltd. (Rs.60 against Rs.100). The discriminatory nature of compensation payment comes out on another account. The compensation, by applying the principles laid down for the purpose, was to be given by the successor corporations. Those formers managements which found place on the board the new corporation, like Shri Tata,[30] were in a better position compared to the others in the application of the compensation principles.

It can be seen that the compensation value was almost double the market value of shares in most of the cases, and at about 237 percent, was the highest for the Air-India International Ltd. This is one of the factors which lends credence the conclusion arrived at by some dissenting members of the select committee "that the interests of the operators weigh high with the Government."[31]

It seems, therefore, appropriate to agree with the dissenters who all felt that the compensation amount was excessive, inequitable and unjust.[32]

Another point made in this connection related to adding a fixed sum to the written down a share of the assets. It was pointed out that this "plus" seems to be unjustified. The Minister maintained that it was to compensate for the

expenditure incurred in obtaining the certificate of air-worthiness.[33]

An important aspect of the issue was the concern of the dissenting members of the Select Committee to ensure that out of the disbursed compensation, the shareholders obtain their legitimate share. They pleaded for a specific provision in the Act to ensure this and obtained legal opinion that a provision to this effect could not militate against the provisions of the constitution.[34]

It was argued by a Select Committee Member, Shri N. Kanungo, that the purpose of the nationalisation Bill was to acquire the "undertakings" of various air companies and not "odd bits of immovable property including junk."[35] Hence the procedure of evaluating the value of each bit of property separately and fixing the compensation amount did not appear to be in consonance with the stated aims. Shri Kanungo further argued that the available precedents of the Reserve Bank of India and the Road Transport Undertakings in Bombay also did not support this procedure.[36]

The way in which the measure would be discriminatory against the large majority of shareholders was clearly brought out by Shri Kanungo. He wrote, "As a result of the working out of the schedules, it is anticipated that out of the approximate total number of 30,000 share-holders in all

the companies which own the undertakings, only 5,000 are likely to get varying amounts of compensation for the value of their shares (on the assumption that the companies will choose to distribute the entire compensation money equitably amongst the share-holders). "Thus early 85 percent of the "large body of middle class small investors" would not get "even a pie as compensation." This led Shri Kanungo to conclude that a "small fraction of shareholders are receiving a favourable treatment as against the very large bulk who are being left without anything."[37]

It may be pointed out that "the original value of the fixed assets and spare parts and tools shown in the books of account of the companies is about Rs.6 crores inclusive of Rs.60 lakhs for Indian Overseas Airlines and Himalayan Aviation."[38] This value included spare parts and tools valued historically at Rs.1.94 crores. As against this valuation, some members suggested, as we saw earlier, that the present purchase price of those assets would be in the region of Rs.10 crores. These figures have to be contrasted with that of Rs.6.02 crore which was paid in the form of compensation for compulsory acquisition. Since this is not much different from the PUC (which excluded Rs.1.49 worth of loans taken by the air companies), the graveman of the charge mainly concerns both the size of the compensation amount as such as

also its discriminatory effect on different companies, its cumbersome procedure with a lot of individual case by case discretionary powers and neglect of the interests of the ordinary shareholders, who could not exercise even the normally available none-too-significant, power of **"exit"**, after the undertakings of the companies have been acquired by the State and these companies will have to cease operation. Thus, it was argued that "this is a nationalisation which transforms the multi-millionaire and millionaire debenture-holders and preference shareholders of the air-lines into bond-holders." Thus, this nationalisation Act Limited the size of de-concentration effect in the sense of reducing existing inequalities by chopping off some heights.

In any case the controversy over the issue of compensation and the decisions in this respect, alongwith the methodology of acquisition, (i.e., not taking over the companies as a whole as running concerns but acquiring the 'undertakings' of the companies)and compensating them for individual items of assets in a liberal manner are significant features which contribute to the determination of the nature and content of emergent public ownership. For one thing, it showed the pull of the controlling interests and larger shareholders vis-a-vis the large number of small, middle-class investors. Then the advantage derived by some companies showed

the possibilities which become available to the Government to bestow favours upon some and not on the others.

The discriminatory character and potential of such legislative actions get further illustrated by another moot point, viz., the organisational form to be given to the State-owned and controlled civil aviation industry. The issue of nationalisation was examined, alongwith other issue, by a committee, viz., the Air Transport Inquiry Committee, (ATIC)[41] 1950. Its recommendations concerning nationalisation were very ambiguous. Though it essentially opined against State take-over, (more on this latter), it still suggested the modalities of take-over.[42] Though its terms of reference did not specifically include the question of how to go about imposing state ownership except for working out "the cost of acquisition of such ownership", and future management method[43] the committee interpreted its role in such a manner as to include all the above questions.

The committee strongly suggested that if state ownership is decided upon despite its recommendation, the operations should be entrusted to a Statutory Corporation. Not only that, it went further to recommend that "Even with a Statutory Corporation we are persuaded that it is most important for the success of the enterprise that (a) an outstanding man of business and administrative ability and drive, preferably with sufficient experience of air

transport, should be appointed as Chairman of the organisation, and (b) the Corporation should be given complete autonomy and freedom from departmental control except in regard to main policies to be followed as laid down by Government."[44]

The Act provided for the setting up of two corporations, as against one suggested by the ATIC, and the Planning Commission and many members of the Select Committee, including those belonging to the ruling Party.[45] Even in the debate over the Bill, there was stout opposition to the move to set up two separate Corporations for internal and external air services respectively. "Majority of the members were in favour of a single corporation. The protagonists of a single corporation believed that it would save an expenditure of Rs.6 lakh per year if the two corporations were combined."[46] On the other hand, the Government considered it inadvisable to risk a decline in the reputation or efficiency which the Air-India International Limited had built up since 1948 in the regions where it operated.[47] The Government was for acquiring the 'goodwill' which was believed to be associated with the name of the Air-India International Ltd. However, an assurance was given by the Minister for Communications, Jagjivan Ram, that 'after integration has been completed and after both the corporations were set up on a sound footing, the Government would consider whether the corporations could be amalgamated into one."[48]

The difficulties of renegotiations with external private parties concerning many of the outstanding contracts entered into by the Air-India International Ltd., was also a factor which persuaded the Government to retain the old name.[49] In so far as the Act provided for honouring all such contracts, it is difficult to see much point in this argument. Another reason concerned the reorganisation of the terms and conditions of service of the Staff for the internal services.[50] Obviously, with a single corporation, it would have been difficult to arrive at two different sets of terms and conditions for the employees of internal and external services. Thus, a single corporation also became a means for preventing the emergence of uniform working conditions in the civil aviation industry.

In any case, the "two-corporations theory" had a strong supporter in J.R.D. Tata.[51] As seen earlier, the compensation principles were tilted in favour of Tata companies. The acceptance of the recommendation of the ATIC to appoint "an outstanding man of business and administrative ability and drive, preferably with sufficient experience" apparently led to the appointment of J.R.D. Tata to head the Board of Air-India International (AII). In fact, after nationalisation of AII "no radical changes were introduced in its top management, except that the Government felt it necessary to appoint experienced officers of the Indian Civil Service at

the key position of the organisation."[52] This evoked strong opposition in the Rajya Sabha as a step which furthered the control of the former owners.[53]

The Act provided for the constitution of Labour Relations Committee for each of the two corporations with the representation of labour for maintaining good labour relations and provide a forum for consultation on matters like efficiency, economy, etc.[54] This level and form of representation to labour, particularly in the context of continued association of the former owners in top managerial positions, evoked criticism both in the debate in the Parliament and in the Select Committee. A dissenting Note, signed by three members, reads: "one point that has struck us in considering the provisions of the bill is the shyness of the Government to take the employees into their confidence and to give them an adequate share in the management of this national enterprise--- Unless workers are given their due share in the management of state undertakings, economic democracy cannot develop in this country, and in the absence of economic democracy, nationalisation may not serve the purposes for which it is intended."[53]

The non-inclusion of the non-scheduled air operators, whose share of air transport industry was not inconsiderable, (being nearly 9 and 4 percent respectively to scheduled operators' number of hours flown) (See Table 2 for details) in the list of the units whose undertakings were acquired

also weakened the coverage and content of nationalisation. Apart from being a fairly extensive part of the total air-services operating in India, these operations were financially profitable too. Moreover, it was feared that through malpractices, the non-scheduled operators may take away some lucrative business of the public corporations.[56] For the same stated reasons for which the scheduled air operators were taken-over, a case existed for taking over non-scheduled air operators as well. Thus, in effect, nationalisation of air transport remained less than complete. Though in a formal or legal sense, private air-services cannot operate as scheduled operators it is still possible to start non-scheduled air companies and to provide air travel services on a commercial basis which in various ways may encroach on the business of the two air corporations.

The nationalisation law, as discussed above, shows that the manner of take-over of air companies and specific provisions concerning compensation, role of former owners and labour in the post-take-over set-up, and the coverage of the Act, alongwith its discriminatory provisions limited the socio-economic content specially with respect to reducing concentration of income, wealth and economic power and in enlarging the spheres of social decision-making.

The process of enactment of the take-over law, through formal legislative processes and after making the decision to bring civil aviation under public control known sufficiently in advance bring out some interesting features associated with the

socio-economic processes changing the composition of ownership and control over industrial and infrastructural units. For one thing, it gives scope for changing the thrust of the law to the advantage of former owners and controllers through a variety of means. They can manipulate accounts and assets in order to derive maximum advantage from compensation principles. Even the choice of compensation formulae becomes an arena of debate and the play of socio-economic power. The extent to which such compensation formulae are chosen as place an undue strain on the public exchequer and bring in excessive gains to the former interests, it goes to show the kind of interests which hold away over the regime. The decision to go in for public ownership cannot, therefore, by itself indicate the socio-economic complexion of the government of the day, because the nature of the specific legal provisions is also significant and may blunt the edge of the effects of take-over. It also may be taken to show that various moves against the interests of the better off sections are not opposed simply in their basics. Even if the moves to oppose things like nationalisation do not succeed, during the stage of legislation and implementation there appear a good deal of opportunities for protecting and strengthening essential interests. Theories of public decision-making have emphasised this aspect when it is suggested that "in order to understand the decision-making process, we have to look at the series of decisions in its totality."[57] It may be easier for the politicians and bureaucrats to accommodate the vested

interests in legislative and executive details than with respect to the basic stated principles and intent of public policy. In fact, the possibility of accommodation at the former level may soften the opposition of the vested interests at the latter level. The ending of private ownership and control over civil aviation in India showed that it is possible to do away with private ownership but on terms quite liberal for the former owner and without a total disappearance of private control.

II

Air transport is the youngest transport service to develop in India.[58] The beginning and development of air transport is related to a large number of inter-related factors. Like most modern industries, air transport too first developed in advanced industrial countries. Apart from the general factors which made India go in for the local development of those industries which had made good progress in the West, the fact that "most international lines between the Eastand and West have to go across India,"[59] was specifically responsible for bringing colonial India on the international air services map. Some geographical factors also worked towards generating the need (as distinct from demand) for civil aviation.[60] For one thing, the vast sub-continental size of the country made a case for a swift, time-saving made of transport. "Safe flying weather throughout the greater part of the year"[61] was a facilitating

climatic factor. The need of administration as well as defence further helped strengthen the case for introducing and developing air transport services. It has been pointed out that "a substantial proportion of the passengers who now travel by air are government officers travelling on duty."[62] The administrative needs for air services increase during periods of emergencies like floods, earthquakes, etc. when ground transport links are disrupted.[63]

Such factors supporting the development of civil aviation can be related to two important factors of overall national policies, which started playing an important part mainly after Independence. Air transport is generally a front-ranking activity in terms of the technological frontier at which it operates. Development of this fast, time-saving and comfortable means of transport brings in its trail significant technological external economies. It also has a good pay off in terms of growth of indigenous sophisticated skills. Development of air transport has also been associated with the modernisation imperative, i.e., the national prestige associated with indigenous air services.[64]

Against these factors, there are some constraints which inhibit the development of civil aviation in India. For one thing, it is a highly capital-intensive activity, requiring huge investments in aircraft, spares, ground facilities, navigational aids, spares and components etc. In the early phases, all these aircrafts, equipments and accessories had to

be imported. Even to this day, it is a service which makes heavy demand on foreign exchange. Given the level of Indian poverty and generally obtaining income levels, the clientele for it is restricted to an extremely narrow segment of the Indian population. As the ATIC report said, "the economic condition of the country has so far enabled less than 0.02 percent of the total population to avail themselves of the facilities of air transport."[65]

Given the contradictory pull of these two sets of factors, one can witness a constant pull of these divergent factors on the emergence and growth of civil aviation as also on the public policy of support, controls and direct participation towards it. The technical, geographical, administrative, defence and overall development considerations supported private and public efforts for the growth of air services. But the limited economic and technical capabilities reflected in paucity of resources and limited size of the load factor tended to constrain the emerging pattern of growth of civil aviation. Many of the public interventions basically arose from efforts aimed at reconciling these conflicting factors.

The beginning of air services in India were made after the end of the First World War during the period of British rule.[66] In response to the memorandum submitted by the Indian Air Board in 1926 and on subsequent occasions, it was made clear that foreign, particularly British, capital was kept out of the development of internal air transport services. It was

explicitly maintained that "the policy of the Government of India has been and is to develop civil aviation with Indian capital and under Indian management and to afford training and opportunities for employment to Indians and in the course of the participation of Indians in any through service to ensure that such participation is not only financial but technical as well as operational. As regards India's internal air services, Government's view is that this should be the sole concern of India and the policy already laid down should be followed."[67]

Thus unlike plantations, mining, many manufacturing industries, railways and other infrastructure, in which foreign enterprise, capital, management and skill had played varying role,[68] even during the colonial era, civil aviation was left exclusively for Indian capital, management and technicians. Given the highly capital-intensive and technically sophisticated nature of air services, one may wonder why was the typical colonial pattern of foreign penetration was not followed in the case of internal civil aviation. Though it is difficult to come across definitive evidence explaining this phenomenon, some general factors, seem to suggest some possible considerations. Even with Indian capital, management and operational-technical know-how, countries like India were far from developing indigenous aircraft manufacturing industry and R & D facilities in the field of aviation. Foreign capital may have more interest in developing local air services with local resources rather than directly with its own resources. This may provide

a market for their aircraft and ancillary industries. Since there was a rather limited market for air services in India and that too mainly on public account, including postal and military demand, the setting up of airlines did not appear to be holding any exciting prospects. Hence relatively limited potential held out by Indian civil aviation could well be tapped by the colonial masters by allowing Indian capital and management to generate demand for the metropolitan aircraft industries. Moreover, availability of air-services, in addition to increasing the effectiveness and ease of colonial administration, may be expected to develop in the minds of the local elite values and modes of living which contribute positively to the maintenance and strengthening of the colonial relationships.

The actual course of development of air transport in India was considerably influenced by the "Indianisation" decision of the British rulers. Given the need for public support in terms of ground facilities of all descriptions, mail carrying contracts at reasonable and subsidy-granting rates and the regulation of the growth of air routes and air-line companies,[69] there was not much likelihood of the development of independent Indian entrepreneurship in this area particularly in view of continued technical and capital goods import dependence. The brief review of the growth of civil aviation and its main features which follows has to be understood in the context of the factors which we have discussed so far.

The first ad hoc commercial flight in India took place in 1911. It carried postal mail from Allahabad to Naini.[70] This was a mere symbolic beginning. During 1929-30, many international flights started touching India.[71] Since the colonial countries themselves controlled these Empire air services, the Government of India undertook the development of aerodromes and allied facilities. An abortive attempt was made in 1931 to operate an Indian State Air Service between Calcutta and Karachi.[72] Some other efforts were also made to carry mail by air. With the extension of the British Empire Service to Singapore in 1933, an Indian company, Indian Trans-continental Airways with 24 percent share participation by the Government of India, was formed for participating in these operations.[73] Since it was neither financially paying nor gainful in terms of transmission of techno-managerial skills, the arrangement did not last long.[74]

In 1932, there appeared the first durable and regular air service by the Tata Sons Ltd.[75] As J.R.D. Tata described it, "One proud day in 1932, on the 13th of October to be exact, my inaugural flight took off from Karachi and India's first airmail service took to the skies."[76] "The main sustenance for the service"[77] was the airmail contract with the Government, which was paid for by the air surcharge collected by the postal authorities. The skeleton, once a week, service operated between Karachi and Madras.

In 1933, another company started operating air services between Karachi and Lahore for mail operations on terms similar to those applicable to Tata Sons.[78] Indian National Airways, was also given "free air route organisation" and despite having to face inadequate traffic loads, the company tended to expand. The Tata operations were extended in 1935 to many new sectors. However, the efforts of Indian National Airways to operate on Calcutta to Dacca and Rangoon route ended in a financial fiasco.[79]

The locational advantage enjoyed by India became the basis for further expansion of air transport. In order to provide the Indian counterpart to the Empire Air-mail Scheme started in 1938 for carrying mail among various colonies of the U.K., the Indian government gave a 15 years contract to the two operating airlines.[80] As a result, Karachi-Madras route was extended to Colombo. Under guranteed payments from the government, which "included an element of financial assistance by Government", it became possible for the airlines to plan their operations on a secure basis. These measures turned out to show better results than the still born effort to set up an airline called Indian Trans-continental Airways with 24 percent government equity and under managerial and operational control of the Imperial Airways.[82]

Meanwhile a third airline, viz., Air-services of India operated during 1937-1939 on Bombay-Kolhapur and Bombay-Saurashtra routes.[83] The fares charged on those routes "were just above the level of second class railway fares while the

minimum cost of operation in the conditions then existing were above the first class railway fares."[84] However, owing to poor surface transport facilities, and probably owing to the traffic arising from the princely States, the passenger load factor was considerable. However, the entreprise did not succeed and was closed down in 1939.[85]

From the above account, certain significant features of early growth of civil aviation in India may be noticed. The British and other foreign interests did not come forward to invest in air companies in India. In fact, there was a clear policy decision to leave this field only to Indian capital and management. Despite some reverses, beginning of air transport services in India were made. Two companies survived the viccicitudes on the basis of their own initial investment. The record of these companies with respect to regularity and safety of operations showed the capabilities of Indian capital and management in a technologically advanced field.[86]

The fares were kept low in order to attract traffic and popularise air travel. The main sustenance in any case came from postal mail carriage. The Government gave indirect financial support by giving liberal, long-term mail contracts. Thus there was an important link between the growth of communications and growth of air transport services. Government assistance was of material value in another critical area, viz., ground organisation and facilities like aerodromes, navigational

facilities, etc. "Upto 1939, an expenditure of about Rs.1½ crores was incurred on the provision of aerodromes, hangars, workshops, technical and administrative buildings and aerodromes and air route lighting. A small nucleus of pilots trained upto the 'B' licence pilot's standard was created by a system of subsidised training in flying clubs established at the important provincial capitals."[87]

Air service is a complex modern business which cannot grow without public regulation. This is illustrated by the fact that well before the regular commencement of air services in the early 'thirties, beginnings were made to set up regulatory, administrative arrangements in 1920 in the form of creating the post of Chief Inspector of Aircraft to Government.[88] In 1927, this post was converted into one of Director of Civil Aviation under the Department of Industries and Labour.[89] For purpose of formulating public policy on air services the Indian Air Board was constituted in 1926; the Board prepared a Memorandum on the growth of air services and made suggestions for the development of air transport.[90] In 1937, the Directorate of Civil Aviation was made a part of the Department of Communications.[91] Thus a nucleus of agencies and arrangements for public regulation and control of air transport in India came into existence by the time Second World War broke out. By this time about 5190 miles of scheduled air routes were operating in India, which flew

over 15 lakh miles with 99.8 percent regularity.[92] During this period, Indian Aircraft Rules were formulated and enforced. These related to "the technical requirements of air transport operations like licencing of personnel, registration of aircraft, certification of their air-worthiness and their periodical inspections, licensing of aerodromes, etc.[93] With the beginning of scheduled air flight, in 1934, the Indian Aircraft Act was enacted which provided for the above mentioned Rules.[94]

With the onset of the War in 1939 began a new phase in the growth of air transport in India. In Europe and in India many air services were suspended or curtailed and were "run directly for the Government and the defence services."[95] The level of air services increased after some initial curtailment in order to cater to the needs of moving freights, mail, military personnel etc.

The need for big aeroplanes to meet the increased demands were met by the Government under a Lease-Land Agreement. As a result D.C.-2's, D.C.-3's, etc. were made available to the companies. By 1943, as many as 16 routes were operated.[96] Additionally a number of special works connected with the War were made available to the two companies. As the ATIC Report makes a special note, "the remuneration paid by Government to these companies for the various services rendered by them during the War put them in a

financially sound position at the end of the War."[97] Goodwill, experience, expertise were the other gains which the War time enhanced operations brought to the two airlines.[98] During the year 1945, the two airlines carried as many as 22,000 passengers and 650 tons of mail and freight, with Tata Sons having the larger share of the two.[99] Thus, when at the end of the War, the Lend-Lease aircrafts were withdrawn, the companies were able to requip their fleet by purchasing Dakotas from the U.S. Foreign Liquidation Commission.[100] It should be noted that upto the period ending in 1945, the Indian air companies operated on internal air routes only and there was no Indian international carrier providing external services.[101]

The new prospects for the growth of civil aviation in India deemed feasible after the war necessitated the institution of licensing requirements for air transport undertakings and to prohibit all operations without a licence. This was done in 1944, following the recommendation of Sir Frederick Tymm, Director of Civil Aviation, by an amendment of the Indian Aircraft Act, 1934. In 1946, Air Transport Licensing Board (ATLB) was set up and licensing rules came into force with effect from October 1946.[102]

The growth of civil aviation in the Post-War era involved governmental interventions to an appreciably greater extent. These steps seemed to have followed from the proposals made by Sir Tymms concerning plans for future development of air transport.[103] His proposals included details of trunk routes, the likely amount of traffic, the requirements of modern, technically more efficient aircrafts, cost-estimates, likely revenue and the size and duration of likely deficits. He suggested that "the services should be entrusted for operation to a limited number of private airline companies not exceeding four which would operate on a commercial basis with prospects of profit and risks of losses."[104] He visualised the need for a five year period of State subsidies based on "the difference between the pre-fixed operating cost and the target revenue set." He also pleaded for a system of licensing airlines.[105]

He also suggested the establishment of two corporations for operating external services with a sizeable, but not majority, government equity, which was to be provided by "an established air transport operator in the internal air transport field."[106]

These positions were generally approved by the Reconstruction Policy Committee for Posts and Civil Aviation in 1944.[107] In May 1945, the government announced its

policy on air transport to develop internal and external services "by a limited number of sound and reliable private commercial organisations, with their own capital and operated under normal commercial principles," "subject to licences granted by Government".[108] It was also stipulated that State assistance would be granted at discretion and conditionally. The purpose of licensing was "avoidance of wasteful competition" and to "prescribe the limits within which fares, freights and mail carriage rates could be fixed."[109]

The War experience demonstrated the attractive lucrative nature of air transport based on appropriate government support. As a result of the war time operations, the ground organisation for air transport was also considerably strengthened, particularly on account of the fact that every year a capital outlay of Rs.1½ crores to 2 crores was undertaken by the Civil Aviation Department for these purposes, including provision of communication and navigational aids. The Government set up training facilities in order to meet the personnel requirements. The setting up of Hindustan Aircraft Limited, (HAL) originally for manufacturing aircraft but later on changed over to repair and maintenance jobs also facilitated the growth of air services. More particularly, HAL was used for the overhaul and conversion into passenger aircraft of the disposal Dakotas, of which as

many as 115 were acquired by the old and new airlines.[110] This more than made good the loss of Lease lend aircrafts.

These disposal aircraft were very cheap and were bought in large numbers by many existing and prospective airlines. By the middle of 1946, the surplus war time stocks of aircrafts and spares were taken over by the government. Many of the aircrafts like Douglas C-47's and Dakotas were in a good condition capable of being made airworthy at a relatively small cost. Thus as against the requirement of a fleet of 40 as visualised by Sir Tymms, a total of 115 Dakotas were acquired by the new and existing airlines.[111] This factor, alongwith liberal licensing of many airlines, are often considered adverse developments for the growth of air transport and for the viability of the airline companies. As J.R.D. Tata wrote in a booklet titled "Story of an Airline", "But unfortunately for me, and for the air transport industry of this country, it was then possible for a man in the street to buy a Dakota for not much more than has been paid for motor cars. Licences to operate air services were distributed by Government to all and sundry."[112]

In any case, in the face of opposition by existing airlines, a number of new units were attracted to this field and, according to ATIC, in the form of "speculative investment."[113] Not only aircraft and equipment and spares

were purchased in quantities much more than could be justified on the basis of the scale of operations, but there was fierce competition for hiring "the extremely limited number of technical personnel available in the country," which pushed up salaries and wages to very high levels.[114]

Within a short period of the coming into being of the Air Transport Licensing Board, it received over 100 applications from 22 companies for operating as many as 96 routes, including many which did not even have the basic ground facilities.[115] While the Tymms Plan had visualised four competent private airlines for the internal services, at the time the new rules about licensing of airlines came into force in October 1946, there were as many as four companies already operating air services. Thus, if the Tymms plan were to be followed, the ATLB would have been largely without work.

There emerged an anamolous situation from the point of licensing not only for the reason given above but for some other reasons as well. Rule 147 of the Indian Aircraft Rules provided that an operating airliner was bound to be granted licence if it made an aplication.[116] Thus "Air-India, Indian National Airways and Air Services of India obtained provisional licences in respect of most of their present

routes practically automatically and almost as a matter of right."[117] Provisional licence was also granted to Deccon Airways for Delhi-Madras and Hyderabad-Bangalore routes.[118]

However, since the War time boom continued for some time even afterwards as many as 21 air companies with an authorised capital of Rs.42 crores were registered by the beginning of 1947. The capital authorised for actual issue to the tune of Rs.9.7 crores" was very much more than what was needed to undertake the estimated air transportation work in the country."[119]

The Capital Issue control machinery of the Government gave permission to a number of companies for raising adequate financial resources. The surplus of war time aircrafts and spares was not only available in a good measure but was also very cheap. The licensing requirements fixed by ATLB insisted that even before an application for a licence was considered, the applicant had to produce evidence that they had the requisite aircraft, equipment and personnel to be able to operate the services applied for.[120] Thus the prospective airliners had to incur heavy fixed expenditure even prior to obtaining permission to operate scheduled routes.

At the time of the beginning of the operations of ATLB, there were four airlines operating the trunk routes. During its first two years, it licensed additional 11 companies,

which operated, except for a few routes in the East and the South, on practically the same routes as those operated by the existing air companies. Thus "the licensing of a large number of operators, apart from parcelling out the limited amount of work amongst too large a number of units, resulted in a regime of uneconomic competitive operation which led to a progressive weakening of the companies concerned."[121] The ATIC observed that "except Airways (India), all the companies incurred losses and if the partial rebate of customs duty on petrol given by Government were excluded, Airways (India) also would have shown a loss. Excluding the petrol rebate which amounted to approximately Rs.37.8 lakhs, the combined losses of all the companies for the year amounted to about Rs.110 lakhs."[122] This was so on top of the fact that many of the companies did not adequately provide for depreciation.[123]

Alongwith the flood of applications (over 100 for 120 routes covering the whole country),[124] there was felt the need to support the two old airlines by providing them with additional services on cost plus basis. In 1946, the government guaranteed a fixed percentage of their capacity revenue for use as government priority traffic. This help in the form of assured traffic was further strengthened by guaranteeing a minimum remuneration for mail contract

amounting to Rs.10 lakh per annum for Air-India and Rs.1 lakh per annum for Indian National Airways.[125]

The excess capacity in the form of aircrafts, spares and personnel came in good stead at the time of the emergency situation which arose as a result of the partition of the country in 1947 which necessitated massive evaceration of refugees.[126] For a short period, this work compensated the loss caused by the disruption of well-developed air-routes through partition. However, there was not adequate work for the eleven airlines licensed by the ATLB and none of the short-run spurts could stop at least two companies, Jupiter Airways and Ambica Airlines from being liquidated during 1948-49.[127] In order to eliminate the uncertainty consequent upon working on provisional licences, at the intervention of the Government, the ATLB granted term licences for a number of routes with effect from July 1949.[128]

Among other developments in connection with the growth of civil aviation were the rising costs of operations owing to increase in the price of aviation fuel and rising wage-bill. This was partially offset by the rebate allowed by the government on the petrol consumed by the airlines. In order to increase pay-load for the air companies "All-up" mail scheme was introduced in 1949, which carried all mail by air without a surcharge.[129] The post-partition crises in the Eastern India leading to enhanced demand for refugee migration

also helped restore the sagging stock of the air companies, though in the heat of the intense competition, many unhealthy practices were resorted to by the airliners.[130]

Since low payload factor continued to plague air services, many efforts were made to provide greater work on account of carrying mail. A new scheme of carrying mail between the four main cities of India by might services in India was introduced in 1949, which carried the mail collected after the departure of day services. Many air companies like Indian Overseas Airlines, Deccan Airways and Indian National Airways took part in the scheme without insisting on any guaranteed minimum payment.[131] However, in order to continue this service, most of the scheduled airlines Demanded a guaranteed minimum payment. At this stage there emerged a non-scheduled air operator, Himalayan Aviation, claimed to be having the backing of an influential Congress Minister, which, in addition to Kalinga Airways was ready to provide might airmail services without any guaranteed minimum payment.[132] The ATIC report refers to a public controversy over the prospect of permitting Himalayan Aviation to provide this service in which the term-licensed scheduled airlines took a prominent part.[133] Since the provision of night landing facilities and fixation of fare at plus 12 percent were going to divert some traffic from the existing airlines, already harassed by inadequate payload,

they opposed the entry of Himalayan Aviation. However, "in view of its good record" and better offer, the ATLB renewed its licence upto January, 1951.[134] However, so much was the opposition to the entry of Himalayan Aviation, that "it was recognised by the Government that all was not well with the Air Transport Industry" and early in February 1950, they set up the Air Transport Inquiry Committee to probe the present state of the industry, difficulties and shortcomings in the organisation and management for the industry as a whole and for individual companies and methods of operating it with maximum economy, its needs for state assistance, state control and regulation and its re-organisation.[135] Significantly, its terms of reference also included an examination of "the desirability, practicability and economic consequences of the operation of the said air services under State ownership and management, either directly or through a body corporate, and the cost of acquisition of such ownership."[136]

Alongwith the growth of scheduled air operators, under permit from the Director-General of Civil Aviation, there were a number of non-scheduled air operators, whose number declined during 1946 to 1949. As against over 13 thousand hours of flying done by them, in 1950 they flew (about eleven of them) less than 6 thousand hours.[137]

Coming to the external services sector, the Air-India formed a new company called Air-India International Ltd., for providing a regular air link between India and the U.K. Its capital of Rs.2 crores was to be contributed, as seen earlier, by the Government (49 percent), Air-India and general public. In March 1948, the company came into existence with 10 percent capital from Air-India and with exclusive rights of operation on the Western sector and managerial, technical and commercial control with the Air-India of the Tatas;[138] - a joint sector concern of the conception of Shri J.R.D. Tata in which the Government agreed to make good the actual losses after providing for depreciation as disclosed in the final audited accounts for a period of five years. In fact, at the end of its first year of operation a total of Rs.19.79 lakhs was reimbursed by the Government, including over Rs.13 lakhs by way of depreciation provision.[139]

On the Eastern sector, Bharat Airways and Indian Overseas Airlines were licensed to operate Calcutta-Tokyo and Calcutta-Singapore-Australia routes "entirely at their own risk and no question of financial assistance by Government was involved." While the Bharat Airways operated Calcutta-Bangkok route, the other company could not overcome its financial problems to be able to operate.[140] The difference in the treatment given by the Government to the companies on the Western and the Eastern sectors is obvious.

Thus during the period 1946-1950, the total number of hours flown increased from 29.5 thousand to 1.18 lakh, and the number of passengers from 1.05 lakhs to about 4.83 lakh. While the total traffic carried increased from 63.91 lakh ton-miles to nearly 3.40 crore ton-miles, the load factor declined from 74.8 percent to 65.1 percent.[141] This shows the essential crisis of air transport which over-expanded during this period, leading to wasteful competition, misuse of scarce resources and unhealthy rivalry among the airlines.

Given such a low load factor and over-equipment, it is not surprising that these air companies were in rather poor financial health. ATIC data, mostly for the year 1949-50 but in one case for 1948-49 and excluding Kalinga Airlines (which did not furnish the necessary information), show that one year losses exceeded Rs.110 lakhs.[141] For the 9 scheduled operating companies with an aggregate paid-up capital of Rs.630 lakhs,[142] this was an unbearable burden, particularly in view of the fact that this figure of loss was arrived at without making adequate provisions for depreciation. This burden of loss was partly shared by the government to the tune of Rs.37.8 lakhs, in the form of rebate on the duty on aviation fuel.[143] In order to appreciate such a state of affairs, it is essential to turn one's attention, over and above the factors already discussed, to public regulation of civil aviation in India.

III

The nature of air transport services, particularly in the context of a country like India, necessitates a great deal of public intervention almost at every stage. We have seen that the certification of the airworthiness of aircraft, provision of aerodromes and other ground facilities, licensing of import of aircraft, capital issue control and licensing of companies for various air routes, fixation of freights and fares, provision of mail carriage contracts, training of personnel through subsidised flying clubs, State subsidies in various forms were so many forms of State intervention experienced by Indian air transport companies. During the post-war period when air transport really began to grow, licensing and State financial support became the main public policies governing air services.

As mentioned earlier, during the post-war period, the Government moved from the position of licensing of airworthiness of aircraft to licensing of air routes without which no scheduled flights were permissible. Apart from other aspects, the Post-war schemes for the growth of air transport included estimates of likely load factor and the number of airlines needed for carrying out the task. It was essential to formulate such guidelines

and criteria for the licensing agency that the growth pattern of air transport conformed to the likely pattern visualised in the plans formulated by Sir Tymms. Since corporate bodies were likely to take up the task of providing air services, the agencies controlling the growth and functioning of the corporate sector, like capital Issue control agency, were also to be involved with the regulation of newly coming up air companies.

This was to happen in an entrepreneurial environment expecting rosy prospects for the growth of air services. "Operations during the War when very heavy traffic loads were carried and substantial traffic was turned away for want of accommodation had created an impression that air transport was a very profitable enterprise."[144] Easy and low-priced availability of aircrafts and other equipment through War time disposals further attracted many potential investors to this field.

The task of the ATLB was not only one of evolving guidelines, in consultation with or at the behest of, the government, for licensing; they also had to face the ticklish question that if they had to licence no more than four carriers, as suggested by Sir Tymmas,[145] they would become a party to introduction of monopolistic

structure in the provision of a vital service. In fact, four companies were already operating at the time the ATLB began its work. Since, in effect, these companies needed carry-on-business licences and "under the terms of the Rules, these companies more or less automatically got licences for those services",[146] the ATLB had to face the task of regulating entry and allocation of routes to as many as 21 companies already authorised to raise Rs.42 crores of capital by capital issue control authorities.[147] Under the ATLB rules, a company had to show possession of enough aircraft, equipment and personnel to qualify for the grant of a licence. Thus, prior to licensing air companies with personnel and equipment came into existence and vied with each other for obtaining licences for various routes. Even the actual equity issue authorised to these companies at Rs.9.7 crores was "very much more than what was needed to undertake the estimated air transportation work in the country".[148]

This method of licensing does not bear comparison with industrial licensing as came to obtain in the country. In air transport, companies were allowed to come into existence and equip themselves and then had to face the hurdle of obtaining a licence. In industrial licensing, formation of a company and setting up of production

facilities were subject to availability of appropriate licence. Thus air transport licensing could not control resource allocation; the manner in which it was conceived of it could not operationalise the task of matching the setting up of air transport facilities with the national needs of air transport. Thus within two years of its operations, ATLB licensed eleven companies to operate on the same or practically the same routes as those operated by the existing airlines, with new areas covered only in Bengal and Assam.[149]

Thus, there came about excessive competition and too many operators for a relatively small volume of traffic. Through the introduction of the Night Mail Scheme and granting it to a new, hitherto non-scheduled operator, viz., Himalayan Aviation, steps which were by themselves justified and unexpeceptionable in so far as the former generated additional traffic and fast movement of mail and the latter allotted the job to the company which offered the best of the terms,[150] there came about a further weakening of the load factor available to the scheduled operators. There was some controversy about the pros and cons of licensing of Himalayan Airways, particularly, in view of the resentment that it caused to the existing scheduled operators who were not doing well in terms of financial

results. As the ATIC put it, "the result of it was that it added one more operator to an already overcrowed field",[151] leading to reduction of revenues available to these companies.

An appropriate licensing policy should have been based on a scientific assessment of the traffic potential, which the Board did not in fact have. On the other hand, the applicants for licences "claimed that there was still adequate unexploited traffic potential",[152] leaving scope for fresh entry. It often happens that demand follows supply and hence there could be some justification in licensing new entrants even without bringing into play the dangers of monopolitic or oligopolistic tendencies. According to ATIC, the risks arising from monopoly could have been dealt with by freight and fare control and frequencies.[153] This is a narrow view of the ill effect flowing from monopolies with respect to the users of air services alone. There are other ill-effects in areas of distribution of income, wealth and power and prospects for future growth of the industry concerned which monopolies may give rise to. Licensing of fresh entry did increase the number of operators, but as we shall see, was not very effective as an anti-monopoly step. In so far as the Board did give permission to discontinue the service to the

companies, it cannot easily be faulted.

The method adopted by ATLB in giving licences is said to have led to overequipment and their underutilisation.[154] The insistance by ATLB on producing evidence that the applicant companies had requisite aircraft and equipment brought about advance commitment of resources by the companies. The fact that these companies infact equipped themselves prior to the setting up of ATLB does absolve it of the responsibility of bringing about such over equipment (113 aircraft against the need for 70, leading to average utilisation at/under 1,000 hours).[155] However, it does not alter the fact that easy and cheap availability from Disposal and the urge to strengthen one's case for the grant of licence in "the spirit of intense rivalry"[156] on the part of prospective airlines led to possession of more equipment than was needed by the air companies.

Furthermore, as pointed out by ATLB, since grant of licence and commencement of service were intended to be almost simultaneous,[157] though, there is no reason why such a simultaneity should have been envisaged, the ATLB had to insist on evidence of possession of proper equipment. It may be suggested that the licensing authorities could have alternatively insisted upon financial, managerial and technical competence for the issue of a letter of intent.

This could have been followed by the AILB to obtain for itself a hand in the choice of the specific type and number of aircrafts, because this would have led to better resource allocation and utilisation.

In this way, a number of airlines came into being and started competing for limited traffic. The result was piling up of huge losses which could not be wiped out even by a liberal grant of public subsidies. As the Table below shows, the total losses during the last four years (1949-1952) of private sector's operation of internal air transport amounted to about Rs.2.89 crores, of which Rs. 1.73 crores were covered by public subsidies.[158]

The grant of licences and route mileage was such that various companies acquired highly uneven benefits and roles. As ATIC pointed out, "one operator, viz., Air India, does the largest amount of flying and earned by far the largest amount of revenue."[159] Besides being the oldest operator, it got additional frequencies on its existing routes and some of the most remunerative routes were also in the hands of Air-India. Its relative position, as on 1st July 1950, vis-a-vis all the term licence holders can be seen from the

TABLE

Summary of losses incurred by the Companies merged into I.A.C.

Financial year	Revenue	Expenditure	Loss	Sub-sidy	Loss inclu-ding sub-sidy	Items which should have been added to the loss	Aggregate Loss
	Rs.	Rs.	Rs	Rs.	Rs.	Rs.	Rs.
1949 ...	6,53,63,000	7,00,05,000	46,43,000	33,91,000	80,34,000	..	80,34,000
1950 ...	7,92,50,000	8,19,03,000	26,54,000	52,50,000	79,04,000	..	79,04,000
1951 ...	8,29,85,000	8,32,70,000	2,85,000	51,66,000	54,51,000	--	54,51,000
1952 ...	7,97,52,000	8,09,59,000	12,07,000	35,00,000	47,07,000	27,93,000	75,00,000
		Total	87,87,000	193,07,000	260,96,000	27,93,000	288,89,000

Source: Estimates Committee, Forty-Third Report (1956-57), Ministry of Communications, Indian Airlines Corporation, Lok Sabha Secretariat, New Delhi, December 1956, p.80.

following:-

1.	Flying Hours	37.69 percent
2.	Route Mileage	30.56 percent
3.	Capacity ton-Miles operated	40.22 percent
4.	Total Transport in ton-miles	44.69 percent
5.	Revenue (Rs:)	42.56 percent

(Source: ATIC Report, Table 24 P.107)

Thus, licensing of new air companies could not compromise the dominance of one company in the structure of air services. Since Rule 147 of the Indian Aircraft Rules entitled existing companies to obtain provisional carry-on-business licences, the ATLB could not apply any corrective in the form of an even sharing of routes leading to continuation of a historical pattern.

Thus, concurring with the ATIC Report, the 43rd Estimates Committee Report of the First Lok Sabha, pointed out that "the working of the rules of licence of scheduled air-transport series had not brought about the result that was intended to be achieved when they were framed. There was intense competition to obtain route-licences and there were too many operators in the field to exploit the limited traffic potentials. The result was uneconomical working and wasteful competition."

How far was this an entrepreneurial failure in the sense that they could not arrive at prudent judgements about the likely volume of business and overstretched themselves and how far was this the failure of licensing policy as discussed about cannot/be determined precisely /on the basis of the facts available to us. Apparently, both the factors operated in conjunction to lead to financial losses, under utilisation and the emergence of the need to lean on public subsidies in order to remain in the field.

Under these circumstances, the problems facing air transport were examined by the Air Transport Enquiry Committee (ATIC) headed by Justice G.S.Rajadhyaksha. The Report of the ATIC dealt with the issues we have discussed in the foregoing. It came out with a scheme of reorganisational for overcoming the problems which have told adversely on the functioning of air services in India. Since the air companies had been issued term licences upto 1959, it was/not found possible by the Committee to suggest elimination of some operators or redistribution of routes on an equitable basis, particularly in view of a standing rule entitling renewal of term licences in favour of existing operators.[162] The 10 year term licences for the six operators could not be revoked as there was no case of financial insolvency. Hence the Committee accepted the position

that there will operate six operators, unless some of them decide in favour of a voluntary merger, leading to an "ideal pattern" with four operators only.[163] The Committee went on to suggest some possible mergers to reduce the number of operators to five. Even then it found the going to be uneconomical for the operators. Since no new routes were available to enable even five operators to be able to put themselves on a sound footing, the Committee suggested that three provisional licence holders operating scheduled flights should be eliminated.[164] These three companies were: Indian Overseas Airlines (which had "perhaps the largest fleet of aircraft"[165], Himalayan Aviation (which offered the best terms for operating the Nigh Mail Scheme and "started the service within 15 days of the grant of a licence to it and justified its selection by the punctuality, safety and operational efficiency of its services",[166] though in the first year it could not prevent a small financial loss)[167] and Kalinga Airlines, (which did not much cooperate with the Committee, but seemed to be doing well with respect to both scheduled and nonscheduled operations).[168] Elimination of the provisional licence-holders appeared to be the only means available for providing some additional route-mileage to the term licence-holders. Since new licences were granted,

despite express statement by the Government in Parliament to the contrary, the Committee recommended doing away with the provisional licences and suggested a scheme of reorganisation - redistribution of routes to the term licence-holders.[169]

The scheme of redistribution suggested kept the predominant position of Air India intact. This was suggested even though it was noted that "its costs of operations are high, the highest in India"[170] and given its highest utilisation per aircraft, its was surprising for the Committee "that it should exhibit such a heavy loss for 1949".[171] Many of the other companies in whose favour a redistribution of routes was recommended were also not faring well.[172] The scheme of redistribution of routes in order to implement to the maximum possible extent the principle of one-route-one operator,[173] was supplemented by recommendation on fixation of fares, freights and mail rates as 12½ percent above reasonable freight rates.[174]

The scheme of reorganisation was supplemented by recommendations on a fare structure which should, given estimated traffic, provide to the operators a 10 percent profit on their fixed assets and should be such as not to deter the travelling public from using air services.[175] In many cases the proposed fares fell within the ranges

recommended by the Committee. On the basis of these, estimates of revenue were made. Then, the Committee also fixed reasonable cost levels and worked out the likely profit which the companies were likely to make. The financial results of the operations under the plan of re-organisation proposed showed profits larger than 8 percent on fixed assets for all the companies.[176]

The Committee recognised the need for financial assistance for air transport services by the Government in such a manner as to yield a margin of profit to the private entrepreneurs. The Committee maintained that "If the Industry does not make a small profit then there is no purpose in having an industry except as a public service which Government may as well run themselves."[177] Showing the importance of air transport for the country, it was argued by the Committee that "these considerations have prevailed with the Government of most countries and they have undertaken to bear a part or the whole of the loss, if any, sustained by air transport companies, wherever the Industry is in the hands of private enterprise, if they are statisfied that management by the companies has been honest, economic and efficient. Where it is nationalised, the Public Exchequer naturally bears the whole loss, if any."[178]

On this basis and, in particular, approvingly quoting the position taken by the U.S.President Truman's Air Policy Commission Report ("Survival in the Air Age" 1948), it maintained that government financial aid to commercial airlines was fully justified on grounds of "national security and economic welfare."[179] With such aid, it was further argued that air transport can in course of time become self-supporting. The Committee referred to the conclusions arrived at by the first meeting of the Policy Committee on Posts and Aviation which endorsed the need for the government to make up the losses of the private aviation companies.[180] The assistance could be given in various forms like fuel tax rebate, heavier mail charges and in order to prevent misuse of subsidy can be based on standard cost norms.[181] It maintained that non-scheduled operators do not quality for government financial assistance.[182] It also suggested administrative set up to meet the needs of regulating air services following the implementation of the reorganisation Plan.[183]

As far as the external air services go, it was seen that a joint sector company, Air India International Ltd., had the monopoly of the Western routes. The Government made good its losses in the first year to the extent of nearly Rs.20 lakhs. Since similar treatment was not made available to Bharat Airways operations in the Eastern sector

in terms of recoupment of losses and financial support, the Committee recommended extension of such support to this company as well.[184]

The scheme of reorganisation recommended by the ATIC came effectively as a substitute for nationalisation; something which the Committee did not favour.[185] It was maintained that as a result of the operation of this scheme, on the one hand, the revenues of the air companies will go up, and, on the other hand, they will get a time of about two years to reduce their costs of operations to the levels considered reasonable by the Committee. During this period of adjustment extending for two years, i.e., upto October 1952, financial assistance to the companies in the form of rebate on petrol duty was recommended for continuation.[186] According to the Committee's calculations the rebate would amount to Rs.45 lakhs in 1951 and Rs.30 lakhs in 1952.[187] As seen in the Table earlier, the actual subsidy for these two years amounted to Rs.51.60 lakhs and Rs.35 lakhs respectively. A review of this policy of reorganisation at the end of two years was also suggested. The ATLB was, under this scheme to be made the agency for implementing the reorganisation plan in its various aspects, including assessment of the performance of each company under the interim financial assistance plan meant to help the airlines overcome their financial difficulties alongwith an incentive to reduce

costs.[188]

The experience of public control and regulation of air transport services posed some difficult choices before the public authorities. The demand for air services was rather limited. It was unable to provide a sufficient basis for viable commercial operations, particularly if unhindered entry was to be granted to all those enterprises which saw a profitable commercial opportunity in it at least in the long-run and hence the need to enter the field right away before others built up for themselves advantages of early start. Even public demand like that for mail services or for people travelling on public errands were not sizeable enough to supplement commercial demand. It implied that if air transport has to be allowed and helped to develop in the country, the State has to provide many direct physical facilities, financial support, clientele and a regulatory framework. The regulatory intervention posed some specific choices: how many units, on which routes, with what kind of aircrafts and level of tariff. A limited number of air companies may ensure lower costs but owing to monopolistic dangers, may not allow the benefits of lower costs to percolate to the travelling public. If private air companies were to be licensed, should it happen on the basis of proven

capability or on the basis of mere financial and technical competence but without commitment of resources prior to obtaining the decision to licence. When it came to air mail services, granting the need for speeding up the carriage of mail, what were the methods of air freighting mail and what were their cost differentials and other implications? What to was the size of the subsidy and in what form had it to be given; like directly, in the form of tax concessions like petrol rebate, or assured booking of seats for official purposes, subsidised rates for mail carriage, etc.? Many other choices also presented themselves, as the foregoing discussion had shown.

The review of the actual course of controls and regulations showed the kinds of choices which were made. However, from the above, it is by no means clear as to what kind of considerations mattered and what results did they produce. In so far as the number of operators could not be restricted to four - the number considered "ideal" by Sir Tymms - the licensing authorities did not play a restrictive role. We have already seen how fares were generally not fixed at a very high level in order to attract passengers. In any case, the general socio-economic conditions limited the market for air travel. Thus a large number of airlines and limited load factor came to mean

absence of financial viability which could not be tolerated without public subsidy. What effect fewer companies would have had on this score is largely a matter of conjecture, because despite high utilisation rates, some companies made losses, while at least one company managed to escape getting into red even in this situation. The extent of over-equipment spurred by easy and cheap availability after the War, through military disposal, also contributed to their poor showing. In fact, even over-manning was witnessed. In any case, there was lack of co-ordination between capital issue control and the ATLB, which led to the entry of many companies.

Given the luxury character of air services, there was a certain attraction which air services business held out to prospective entrepreneurs, many of whom were already well-established in many different branches of industry. The atmosphere of intense rivalry seen in the area of air services may well have derived from the industrial groups competitive behaviour. This would surely be reflected in political decisions. As the controversy over Night Air Mail Scheme contract to Himalayan Aviation tends to suggest, many powerful groups could have been actively influencing these decisions. Relatively stronger position of Air-India,

the support given to it in floating international services in the Western sector on a monopoly basis and with the help of government finances, non-availability of similar treatment to Bharat Airways etc., are probable indicators of the intense political struggles connected with regulation, control and development of civil air transport. These facts and possibilities also point to the large areas of discretionary decision-making opened up by a system of controls and regulations. The kind of forces which actually shaped the course of decision-making in these matters cannot be analysed at the present juncture as the events are too close in time and the relevant documents are shrouded in official secrecy.

It will be difficult to obtain an explicit statement of the considerations which guided the decisions about the specifics of various controls and regulations. However, certain inferences can be drawn from the actual choices made by the policy makers. It can be said that the major decisions were as follows:

a) Provision of various facilities and support to develop civil aviation by indigenous resources.

b) Licensing of aircraft;

c) Licensing of operators and, by and large, licensing of all those who were either already operating or were able to demonstrate capacity to undertake the services.

d) Control over fares and freights;

e) Support by giving mail contracts at cost-plus rates to the air services operators.

f) Financial support in various ways like equity participation, underwriting of losses, petrol tax rebates, subsidised mail charges, etc.

g) A proposed scheme of either voluntary mergers or a re-organisation of routes by eliminating provisional licence-holders, non-scheduled operators and support to it by an interim financial assistance scheme, with a ceiling on distributed dividends at 3.5 percent. This scheme was to be reviewed after two years.

Apart from serving the objective to develop civil aviation in India, these measures wanted to resolve the difficulties faced by private operators in attaining viability. The absence of adequate industrial, technological, social and skills base, combined with entrepreneurial impatience and rivalry had put up many hurdles inimical to

the growth of civil aviation. It seemed difficult that private enterprise could overcome these difficulties without public support. But public support involved the use of scarce social resources for sustaining air transport in the private sector without much guarantee of sustained development, modernisation, and viability of private companies.

In other words, investment in civil aviation has to be seen mainly as a social investment essential for continued reproduction.[189] The pre-independence decision to leave this field for Indian capital and the post-independence decision, in terms of the Industrial Policy Statement of 1948, to leave civil aviation for private enterprise created an anomaly. Air travel and air freighting did not possess the attributes of a commercial service which could be paid for by the users in such a manner as to sustain the capital invested and generate surpluses for its continuation. It was mainly in the nature of a social investment for meeting the needs of the corporate sector and public administration (productive consumption) and partly luxury consumption by the super-rich (capitalist consumption).[190] The ATIC and others exaggerated its defence role in so far as an air force had

come into existence independent of civil aviation. Generally civil aviation produces strong linkages with air defence in the area of production of and R&D with respect to aircraft and during emergencies. In so far as India remains mainly an importer of aircraft, the defence angle of civil aviation retains not-so-great a significance.

The social overhead character of civil aviation comes out on another count. It has been suggested that production organised by private enterprise in order mainly to meet the supply contracts from the State may well be treated as a special category of the State sector.[191] Given the critical role of mail carriage contracts and that of government functionaries among air passengers, civil aviation may well qualify for this special category of the State sector.

In view of such an inherent character of air services, there is little wonder that there was systematic and extensive public intervention in this area. The private sector could probably have, on the basis of such support and regulation, acquired viability in civil aviation if either its social service/overhead character were before long replaced by a normal commercial character and/or the State were prepared to provide financial and other

support (e.g. for expansion and modernisation which was becoming increasingly costly) without much regard for the socio-political consequences of such a policy. In that case, whatever, surpluses air services may succeed in generating in future would largely remain under the control of a few business houses, while a not inconsiderable part of surpluses available to the State would have to be devoted for supporting the growth of air services.

Given the compulsion facing the Government of India in the early fifties, it was quite unlikely that an indirect role in civil aviation could have been accepted. This was not on account of shortage of investible resources available to the State; because nationalisation would not reduce the need for such resources. As the ATIC Report pointed out, "If the Industry remains in the hands of private enterprise, the assistance, if any, will take the form of a subsidy; and if the Industry is nationalised, the Public Exchequer will bear the loss."

The point seemed to be that the subsidy to the private operators will have to provide a margin of profit; otherwise there is little incentive for the private operators to enter the picture.[193] Thus the subsidy would bring about a transfer of resources from public to private

sector which was not raising all the required capital. As the example of Air India International, the re-organisation plan of the ATIC and as the plans for further expansion and modernisation of fleet showed, the investible resources too would have to come from the public agencies.[194] Even then an extensive system of controls, regulations and subsidies would be needed in order to permit civil aviation to remain a preserve of private enterprise.

This would have brought in some additional problem. It would be very difficult to adopt and apply totally non-discriminatory approach to various private air companies. Already, the non-parallelism between Air India International Ltd. and Bharat Airways had attracted attention. Under these circumstances the option of State-supported, aided and regulated private civil aviation would have brought about too close and open an identification between private monopolies and the State. The post-independence Congress Party with its progressive image based on certain earlier resolutions and commitments, making its debut on the path of planning for development and with the known predilections of its top leader-ship was unlikely to have gone in for this option.[195]

Shortly after the nationalisation the Reserve Bank of India, by chosing air services as a fit case for take-over,

it may be said that two birds were, hit with a single stone. Given the history of nationalisation of air services in countries like England by the Conservative Party[196] and in many other market economies, the business and industry circles within India and abroad were not likely to misunderstand it as an unacceptable radical adventure. In fact, the ATIC was not too forthright in its recommendation against nationalisation; in fact, it could be considered some what ambivalent. Earlier, some important business leaders in India, while predictably expressed themselves against nationalisation, did not force close this door with too much of a bang.[197] On the other hand, take-over of this sector would not let the stigma of open identification with monopolies stick to the regime, a stigma it could have attracted by providing equity support, loans for buying aircraft, subsidies to make up losses and other physical facilities to private airlines, with its image of being a super-elitist service. Then, the controls which necessarily go with such extensive public support, would not have been very much conducive to the functioning of the airlines as private companies.

It was argued by the government that nationalisation of air services did not become essential on account of

operational failures and inadequate growth of private airlines. The Minister of Communications told the Parliament that, "though operationally the airlines were doing a good job of work, the Government of India saw that all was not well from the financial point of view."[198] It was further maintained that "During the two years and more since the ATIC reported, the financial position of the companies had not improved. On the other hand, ... the position of the industry as a whole has worsened. One of the chief reasons is the rising cost of petrol. Over a large sector of the industry, costs still remain high. It is clear that, if the companies are to continue to exist, financial assistance from the Government will have not only to continue but have to be increased. Otherwise, sooner or later, many of the companies would be forced to wind up---- There is then the question of future development also...... the state has to find the money required for replacement of aircrafts and also for future development of the industry."[199]

Thus the financial crisis of the "industry" and its dependence on the Government finances for replacement and future equipment, in brief for survival, were considered the main reasons necessitating public ownership. The operational performance was not found wanting in any

serious manner, though the high costs were causing anxiety. Table II presents a synoptic view of the problems and performance of air companies in terms of some important parameters reflecting managerial, financial and overall economic situation facing the companies on the basis of the ATIC Report. It is clear that in terms of over capitalisation, excess capacity, excess staff, excessive competition for limited traffic, low freight rates and passenger fares, extensive route coverage and losses, all the companies presented an unedifying picture. This was the situation **despite** the growth in the volume of business handled by the air companies. This can be seen from the Table III given below:

Growth of Air Transport

		Percent increase in 1952 over 1946	Percent increase i[n] 1952 over 1949
i.	Passengers carried	447.24	137.97
ii.	Freight carried	8422.22	1273.95
iii.	Mail carried	767.32	497.64

Source: Nationalisation of Indian Airlines, Calculated from Table on page 12, IAC, New Delhi, n.d.,

However, it must be pointed out that the growth in absolute terms has to be seen against the capacities set-up. A comparison of the capacity ton-miles offered

with the actual revenue-yielding[200] ton-miles carried gives the following picture:

Year	Revenue Ton-miles carried as percent of capacity ton-miles
1946	74.87
1947	77.19
1948	73.31
1949	63.63
1950	71.94
1951	71.80
1952	71.27
1953	71.25

Source: Calculated from the same source as in Table II above.

Thus one finds that utilisation of capacity which was never satisfactory, declined over this period, leading to high costs and losses.

The discrepancy between financial and operational performance was blamed on the structure of air services sector characterised by more companies than warranted by the market for air services. Thus it was considered essential to reduce the number of air companies in order to eliminate wasteful and unnecessary competition leading to

unutilised capacity and high costs, and in order to obtain economies of scale and provide for planned growth according to national needs. In view of the importance of civil aviation for the economy and administration, and the threat to the existence of the air companies owing to their financial problems, an appropriate re-organisation of air services was considered essential.

In order to deal with this situation, the ATIC had recommended a scheme of reorganisation along with a proposal to provide interim financial assistance. This we have discussed. Even voluntary mergers in order to reduce the number of airlines were mooted. But as the Minister of Communications informed the Parliament, "There was little response (to the proposal for voluntary mergers). It was clear that initiative in this field should be taken by Government. It is clear that if some airlines are to disappear, it is going to be an extremely difficult matter to decide which should go and which should continue."[201]

Thus, the practical administrative difficulties were stated to be the reasons preventing the Government from resorting to weeding out extra air companies or their compulsory merger. One does not know if it was politically

also difficult to go in for this policy. However, an additional factor in the form of the need "to find the money required for replacement of aircrafts and also for future development of the industry"[202] made the government move away from the position which it took in the Industrial Policy Statement of 1948, viz., to permit air services to remain a preserve of private enterprise.[203]

Since air services were making losses which could well have reduced the incentive of the private owners to remain saddled with this branch of economic activities, it was pointed out by some members of Parliament that the take-over of the air services was in effect a bailing out operation for the interests controlling with private airlines. As Shri Bhupesh Gupta, a CPI member of Rajya Sabha, said while participation in the debate over the Air Corporations Bill, 1953, "It is one of the small industries in our counting and whatever may be its future possibilities, it was running at loss and if government is taking it over, we are quite aware that they are doing so actuated by the interests of the capitalist class. In this case, this is a nationalisation which transforms the multi-millionaire debebtyre gikders abd oreferebce shareholders of the airlines into bond holders....... If

you nationalise in this manner, you are not really creating a situation where you have the command of the economy in our country and curtail the power of monopolists."[204]

It follows from the foregoing that the decision to go in for the nationalisation of air transport was grounded in the circumstances facing civil aviation and no macro, general policy objectives were invoked to argue a case for take-over of air services. The general policy framework and orientation of the government concerning nationalisation was in a state of flux upto the time of the Industrial Policy Resolution of 1956. However, there was a fair degree of agreement on the need for take-over of air transport, excepting industrialists and one state government.[205]

The decision to take-over the airlines had been under various stages of discussion for quite some time, at least since 1946. The ATIC discussed the issue at length and despite its express recommendation against take-over, it went on to specify the modalities of take-over and subsequent organisational form. The modality of take-over (compulsory acquisition of the undertakings of airlines), the determination of compensation and mode of its payment and the subsequent

organisation form of the airlines (two autonomous corporations with non-official, experienced private entrepreneurs' representation on the Board) were significant questions, which, as seen earlier, contributed to the determination of the content of nationalisation. Thus with the passing of the Air Corporations Act, 1953, the process of setting up air services on a regular, long-term viable basis reached a decisive phase. It marked the beginning of direct state ownership and control of the most modern and youngest mode of transport in India.

Summing UP

The foregoing analysis of the decision to acquire the undertakings of air companies was based on i) an analysis of the role and importance of air transport in the Indian economy; ii) a brief account of the development and problems of air transport; iii) as also on an analysis of various public interventions and policies in this field.

It was seen that even during the colonial era, it was decided by the government to leave this field of activity for Indian capital, Indian private enterprise and Indian skills, with the government providing essential ground facilities and training facilities for technical personnel through subsidised flying clubs.

Given the limited market and technological base for sustaining commercially viable air services, the decision of the colonial government served two of its major objectives: demand for the products of their aircraft industries and provision of essential air services for mail carriage, administratige, commercial and defence purposes. These ends could be served by letting Indian capital operate air services. But this decision could not ensure the growth of air services in a manner which could simultaneously meet the needs of the economy and ensure reasonable returns on capital. In fact, heavy losses were incurred and some of the companies had to be liquidated. Others were, despite operational competence, financially weak.

This situation seemed to have arisen from the non-recognition in the policy design of some essential features of air services. Air services are essentially an economic infrastructure, more particularly in view of weak industrial and technological base and inadequate level of commercial and private demand. The infrastructural character of air services made them a poor material for private enterprise. This caused a need for continued public support and succour to private airlines in various

forms. Some specific factors like War induced cheap availability of aircraft and of state-subsidised trained manpower, development of ground facilities and navigational aids, the war time bonanza experienced by the air companies alongwith some more lasting factors like the desire on the part of some industrial houses to control a new, technologically sophisticated line of luxury private consumption and essential public service with its long-term potential of attractive returns, seemed to be the factors which induced quite a few new firms to enter this field. The expectation that if things go wrong, State support would be available reduced the risk factor which could have acted as a barrier to new entry. In fact, equity participation and under-writing of losses by the State tended to indicate that the private enterprise did not err in expecting state intervention to sustain their investments in air services.

As a result two significant developments took place. One, there came about a good deal of private investment in air services under the auspices of many air companies. Second, an armoury of public rules, regulations, and controls emerged on the scene alongwith a considerable amount of

public outlays for sustaining air services. Though the 1948 Industrial Policy Statement continued this perspective and the Air Transport Inquiry Committee made a valiant effort to enable private enterprise to survive in the field of air services, there emerged a number of techno-economic and socio-political factors which prevented the continuance of the status quo. The argument that take-over the private airlines would make the entire loss a public responsibility was misplaced. For one thing, it assumed that with take-over, it would not be possible to reduce and/or eliminate losses, especially when the losses arose partly from the fact that there were too many separate companies. In any case, underwriting of losses without direct control is an untenable proposition in the long-run.

There was little indication that commercial, revenue. yielding demand for air services at commercially fixed freights and fares would increase to such an extent as to ensure good earnings to all the eight operators on the internal as well as the external sectors. Increasing state regulation alongwith provision of public funds for replacement, modernisation and growth posed difficult fiscal, administrative and political choices. In order to ensure that the public funds provided to private airlines

have a reasonable chance of ensuring successful air services, it was essential that fresh firms should be prevented from entering this field and the number of existing ones should be reduced by voluntary or compulsory mergers. Such a task of regulating intra-capitalist rivalries became very difficult in view of the necessity to provide public funds to those who might be permitted to remain in the field. Any decision on these matters was likely to be politically challenged by the parties adversely affected.

In view of the incapacity of the private companies to raise the necessary capital for future growth, it became politically very difficult to follow what has come to be known as the Japanese model or pattern of public enterprise. i.e. use of public resources for sustaining private enterprise.[206] The character of the ruling party and the political challenges inherent in India's multiparty Parliamentary democracy ruled out this path. However, there was no compulsion to antagonise the private sector in the process of taking over the airlines beyond the minimum degree inherent in the decision.

This aspect was taken care of by deciding to take-over the undertaking of the airlines as going concerns.

Table II

A Synoptic view of the Problems facing Private Air Companies Prior to their Take-over

	Air India (International)	Indian National Airways	Air Services of India	Deccan Airways	Airways India	Bharat Airways	Indian Overseas Alines	Himalayan Aviation
1. Over Capitalisation	*	*	*	*	*	*	*	*
2. Excess Capacity	*	*	*	*	*	*	*	*
3. Excess Staff	*	*	*	*	*	*	*	*
4. Competition for Limited (skilled) staff.	*	*	*	*	*	*	*	*
5. Competition for Limited (skilled) staff.	*	*	*	*	*	*	*	*
6. Low freight charge and passenger fare.	x	x	x	x	x	x	x This helped in diversion of traffic from other companies.	
7. Extensive Route Coverage	having good revenue potential	x	x	Resulted in inefficiency	x	x		x
8. Loss	*	*	*	*	*	*	*	*

Source: Derived from Chapter III of ATIC Report.
* denote yes
x denote No.

Notes

1. Government of India; The Gazette of India. (Extra ordinary) Pt. II. Sec.2, No.20, April 30, 1953, New Delhi contains the report of the Select Committee, pp. 335-351, p.346. Also, Indian Airlines Corporation, First Annual Report and Accounts, 1954.

2. Ibid.

3. Nawab, A.W. Economic Development of Indian Air Transport, National Publishing House, New Delhi, 1967, p.117.

4. Lok Sabha Secretariat: Estimates Committee, Forty Third Report (1956-57) Ministry of Communications, Indian Airlines Corporation, New Delhi, Dec. 1967. p.1 Also, Nawab, op.cit. pp.117

5. The Air Corporations Act, 1963, no.27 of 1953. Preamble and clause 16.

6. Ibid.

7. Ibid.

8. Government of India, Ministry of Communications, Report of the Air Transport Inquiry Committee. (ATIC), New Delhi, 1950, p.262. A case for complete nationalisation, making air service a state monopoly was made in a Note of Dissent to the Select Committee. op.cit. p.348.

9. Nawab. A.W., op.cit.

10. ATIC. op.cit. p.61, Tata concept of Joint sector.

11. See clause 25,26, and 27 of the Act, op.cit.

12. See The Schedule to the Act. op.cit.

13. Indian Airlines Corporation, Annual Report and Accounts, 1954.

14. Ram Kistayya, V. "The Problems Relating to compensation of Nationalisation of Industries". A study based on Indian Experience during 1947-76. An unpublished Ph.D Thesis of Osmania University, April, 1977.

15. Ibid., p.223. According to the 43rd Estimates Committee Report (op.cit. p.10) the liabilities of Himalayan Aviation exceeded its assets by about Rs.20.39 lakhs.

16. Report of the Select Committee, op.cit. There were as many as seven notes of dissent, signed by a large number of members.

17. Note of dissent by the Chairman of the Select Committee. Shri Thakurdas Bhargav. op.cit. p.341

18. Ibid. p.341

19. Ibid. p.342

20. ATIC Report op.cit. p.335

21. Note of Dessent by Jaipal Singh and others. op.cit. p.343.

22. Ibid. p.346

23. Ibid. p.346

24. IAC, Nationalisation of Indian Airlines, N-d. New Delhi. It provide a reply to the allegations contained in a Phamplet issued by Bengal Chamber of Commerce, p.18.

25. Note of Dissent by R. Sheshagri Rao, op.cit. p.346.

26. Ibid.p.346. Also. p.351. for showing how 85 percent of the shareholders would not get a single pie as compensation.

27. Ibid. Note by K.Nambiar and others. p.346.

28. Ibid. p.348 This was the day the Government announced their decision to take over civil aviatiom.

29. Ibid. p.348

30. Estimates Committee, 43rd Report, op.cit., p.2

31. op.cit. p.345. As a result of such factors, including the role assigned to labour in the management of the Air Corporations, these members concluded that "this one is neither nationalisation nor proper government management, but is one brought forth just to serve certain private interests than the larger interests of the nation". p.347.

32. See the notes by Seshagiri Rao (p.349) and Jaipal Singh and others (p.343))

33. Rajya Sabha Debates. 1953, Vol. 3, Ist to 16th May, 1963. pp.5700-5778 and pp.5806-5924

34. op.cit. p.349.

35. op.cit. p.350.

36. op.cit. p.350.

37. Ibid pp.350-351.

38. ATIC Report op.cit. p.188

39. Corporate management paper, IJPA.

40. Gupta, Bhupesh, Rajya Sabha Debates. op.cit.

41. For a summary of the Report, see Nawab, A.W, op.cit. Pp.43-72.

42. Op.cit. p.187

43. Ibid. pp.1-2.

44. Ibid. p.187.

45. Ibid. p. 187, and Select Committee Report, op.cit. For the views of the Planning Commission, Select Committee, p.348.

46. Nawab, A.W., op.cit. p.102

47. Lok Sabha Debates. Vol. 3, Part II, 1953, March 30-April 21), Column. 4636.

48. Nawab, A.W. op.cit. p.102.

49. Lok Sabha Debates, op.cit. Column. 4636.

50. op.cit. Column 4637

51. Nawab, A.W. op.cit. p.100

52. Ibid. p.123.

53. Rajya Sabha Debates. op.cit., Bhupesh Gupta said, "We find that instead of making over the administration of the industry to a body which will safeguard the interests of the people, of the travelling public, of the consumers, of the employees, of the workers, skilled, unskilled, engineers and pilots the whole thing is being made over to the representatives of the millionaire class. Therefore, Sir, judge if from any angle and you will find that this is a guilt-edged nationalisation, meant for the capitalist class" p.5924 emphasis added. Also, Select Committee op.cit., p.346.

54. Lok Sabha Debates. op.cit. column 4690.

55. Select Committee. op.cit. p.349. Also p.344 and 347.

56. Ibid. p.344.

57. Ugalde, Antanio, "A Decision Model for the study of Public Bureaucracies. "Policy Sciences, Vol. 4. No.1 (1973) p.77.

58. Rajya Sabha Debates, op.cit. Statement of the Deputy Minister for communications, p.5700.

59. ATIC Report, op.cit. p.140

60. Nawab, A.W., op.cit. p.3 in 1926, the Indian Air board opined that India was country admirably suited for the development of air transport. Nawab quotes it as saying, "The large commercial centres are situated at considerable distance from one another enabling aerial transport to accomplish valuable saving of time." p.3

61. ATIC Report, op.cit. p.140

62. Ibid . p.146.

63. Ibid. p.140

64. Ibid. p.146.

65. Ibid. p.140

66. For a historical account of the development of air services in India, see, Nawab A.W. op.cit. AITC Report op.cit. and Dhekney, MR. Air Transport in India (Gwoth and Problems), Vore, Bombay, 1953.

67. Nawab, A.W. op.cit. p.4, This passage has been quoted from the Memorandum on Post war development of civil aviation, Feb., 44.

68. Davey, Brian, Economic Development of India, Nottingham, Spokesman Books, 1975. pp.107-141.

69. ATIC Report, op.cit. p.6

70. Nawab, A.W. op.cit. p.1

71. ATIC op.cit. p.4

72. Ibid.p.4

73. Ibid. p.4

74. Ibid. p.4

75. Nawab, A.W., op.cit., p.6

76. Quoted in *Ibid.*, p.6 . It is taken from "Storey of an Airline" by J.R.D.Tata.

77. ATIC Report, *op.cit.* p.4

78. *Ibid.* p.4

79. *Ibid.* p.5

80. *Ibid.* p.5

81. *Ibid.* p.5

82. *Ibid.* p.4

83. *Ibid.* p.7 and Nawab, A.W. *op.cit.*, p.19

84. ATIC Report *op.cit.* p.6

85. *Ibid.* p.6

86. *Ibid.* p.6

87. *Ibid.* p.6

88. Nawab, A.W., *op.cit.* p.2

89. *Ibid.* p.2

90. *Ibid.* p.3

91. *Ibid.* p.2

92. ATIC Report. p.6

93. *Ibid.* p.10

94. Nawab, A.W., *op.cit.*, p.34.

95. ATIC Report, p.7.

96. *Ibid.* p.7.

97. *Ibid.* p.7.

98. _Ibid._ p.7

99. _Ibid._ p.8 Table No.2

100. Nawab, _op.cit._, p.24

101. ATIC Report _op.cit._ p.18

102. _Ibid._ p.12. Also, Nawab, _op.cit._ pp. 34-42.

103. _Ibid._ pp.8-9.

104. _Ibid._ p.9.

105. _Ibid._ p.9.

106. _Ibid._ p.10

107. Nawab, _op.cit._ p.30

108. ATIC Report, _op.cit._ p.10.

109. _Ibid._ p.10.

110. _Ibid._ pp. 12-13.

111. _Ibid._ p.12.

112. Quoted by Nawab, _op.cit._, p.13.

113. _op.cit._, pp.105. What spurred such speculations was the war time experience when very heavy loads. were carried and substantial traffic was turned away for want of accommodation "and thus" created an impression that air transport was a very profitable enterprise." _Ibid._ p.52.

114. _Ibid._ p.12.

115. _Ibid._ p.12, Nawab, _op.cit._ p.34.

116. _Ibid._ p.105.

117. _Ibid._ p.106.

118. *Ibid.* p.106

119. *Ibid.* p.52

120. *Ibid.* p.55.

121. *Ibid.* p.53.

122. *Ibid.* p.52.

123. *Ibid.* p.52.

124. *Ibid.* p.53., Nawab, *op.cit.* p.38.

125. ATIC Report, *op.cit.*, p.15.

126. *Ibid.* p.15.

127. *Ibid.* p.14.

128. *Ibid.* p.14.

129. *Ibid.* p.14.

130. *Ibid.* p.15-16.

131. *Ibid.* p.16.

132. *Ibid.* pp. 16-17, Nawab, *op.cit.* p.36.

133. *Ibid.* p.17.

134. *Ibid.* p.17.

135. *Ibid.* pp. 1-2.

136. *Ibid.* p.2.

137. *Ibid.* p.262, Appendix VIII.

138. *Ibid.* p.18 and p.156.

139. *Ibid.* p.19 and p.157.

140. *Ibid.* p.19 and p.157.

141. _Ibid._ p.20, Table No.3

142. _Ibid._ Appendix XX.

143. _Ibid._ p.276, Appendix XIV.

144. _Ibid._ Same as in Note No.113.

145. _Ibid._ p.52.

146. _Ibid._ p.52.

147. _Ibid._ p.52.

148. _Ibid._ p.52.

149. _Ibid._ pp.52-53

150. _Ibid._ pp.16-17

151. _Ibid._ p.53.

152. _Ibid._ p.54.

153. _Ibid._ p.54.

154. _Ibid._ p.55.

155. _Ibid._ p.55.

156. _Ibid._ p.56-Also p.108.

157. _Ibid._ p.56.

158. _Ibid._ Estimates Committee, 43rd Report, _op.cit._ p.80.

159. ATIC Report _op.cit._ p.108.

160. Any encroachment on this monopoly was presented by Tata's top brass. As J.R.D. Tata, as quoted by Nawab, _op.cit._ p.13 wrote, "Licences to operate air services were distributed by Government _to all and sundry._ What has transcribed since is sad and recent history." (emphasis added).

161. op.cit., p.17

162. ATIC Report, p.109.

163. Ibid. p.110.

164. Ibid. p.110

165. Ibid. p.111

166. Ibid. p.112

167. Ibid. p.114.

168. Ibid. pp.115-116.

169. Ibid. p.116.

170. Ibid. p.117.

171. Ibid. p.117

172. Ibid. pp.118-121.

173. Ibid. p.121.

174. Ibid. p.134.

175. Ibid. p.136.

176. Ibid. p.Appendix XIX.

177. Ibid. p.144.

178. Ibid.p.140 (emphasis added).

179. Ibid. p.142.

180. Ibid. p.142.

181. Ibid. p.143.

182. Ibid. p.143.

183. Ibid. p.147.

184. *Ibid.* p.160

185. *Ibid.* Chapter 14, There is a great deal of ambuiguity in the committee's approach to nationalisation.

186. *Ibid.* pp.146-147.

187. *Ibid.* p.147.

188. *Ibid.* pp. 147-148.

189. O' Connor, James, *The Fiscal Crisis of the State. St. Martin's Press, New York, 1973, pp. 105-110.*

190. It was owing to such factors that in Great Britain Civil Aviation was taken over by a conservative government under the BOAC, by an Act in 1939. See, Chester, Norman, Sir. *The Nationalisation of British Industries.* HMSO, London, 1975. Page 19. This studies shows how the Government sponsored an amalgamation of the four main companies into Imperial Airways, to which they gave a subsidy. Another company formed in 1935, was also given a subsidy. However, these measures could not satisfy public criticism, which reported in 1938 and caused the conservative government to nationalise the two companies. "This bears some interesting comparison with the Indian experiences. As the 1945 white Paper, quoted by Sir Norman Chester puts it, "whatever the party complexion of the Post war Government, legislation would have been needed and the resulting structure of the industry would have had features more characterstic of the public then of the private sector." p.10.

and led to the appointment of the Cadman Committee

191. O' Connor, *op.cit.* p.17. He gives the example of military equipment and supplies, capital construction, highway construction, etc. Explaining why productivity in such state sector is low and tends to increase sluggishly, O' Connors says, "neither the market nor drive for prefit maximisations discipline state contractors because they are producing under government contract (this is particularly true under cost plus contracts)". One can see how the problems of private sector civil aviation owned themselves to this factor.

192. ATIC Report, *op.cit.* p.142.

193. That such a subsidy from the state to Large Industrial houses may appear as too open and close and identification of the state with monopolies might not have been an unimportant consideration with the Government.

194. As the Federation of British Industries, absolving the Indian Government of "any suspicion of being motivated by socialist ideology in matter connected with nationalisation", said, that there were" reasons of an eminently understandable kine" for those acts of nationalisation which have taken place. It is further said" The Indian Airlines were nationalised because they would have required government support for the replacement of aircraft on such a scale that they would have remained private only in name." Quoted by Myrdal, G. "Asian Dramma: An Inquiry into the poverty of Nations" Vol. II. Chapter 17, Pantheon, New York,

195. For the evolution of Congress approach to radical socio-economic transformation and socialism, See, Ibid.

Also Clarado, Monkovita, "Indian Business and Nationalist Politics from 1931 to 1939. The political Attitude of the Indegenous capitalist class in relation to the crisis of the colonial Economy and to the rise of the Congress Party. (A Ph. D. Thesis, unpublished, the Cambridge University). 1978.

196. See, Note 190 above.

197. ATIC Report, op.cit. p.180. However, they "recognised that the question should be decided on the merit of the case of circumstances of the Industry and the Country's requirements and objectives......................" p.180.

198. Parliamentary Debates (Lok Sabha) op.cit.column 4632.

199. Ibid. Columns 4632-4633.

200. Indian Airlines Corporation, Nationalisation of Indian Airlines. op.cit. p.12.

201. Parliamentary Debates, op.cit. Column.4638

202. Same as in Note 199 above.

203. For the text of 1948 Statement, See, Khera, S.S. Government in Business, Delhi, 19.

204. Parliamentary Debates (Rajya Sabha) op.cit., p.5924.

205. ATIC Report. op.cit. p. 180. Also see Note 197. The state under reference was the then existing province of Bombay.

206. Sachs I. Patterns of Public Sector in Underdeveloped Economics Asia Bombay, 1964, Chapter VI.

207. IAC, Nationalisation of Indian Airlines, op.cit. p.17 Nawab, A.W., op.cit. pp. 253-254 makes a similar point.

208. According to Investors' India Year Book, 1953, p.269, the air companies' Boards were chaired by members of the Tata, Dalmia, Birla, Kilachand houses and included members from other large houses.

Table

Statement of Operational and Traffic Statistics of Schedules Domestic Airlines

Calendar year		Hours Flown	Miles Flown	Passenger carried in use	Freight carried in lbs	Mails in lbs	Capacity Ton-miles offered	Revenue ton-miles carried
1946		49339	4520046	105251	1885726	1026403	8536457	6391253
1947		59312	9361673	254960	564762	1405073	18596778	14355164
1948		78961	12648765	341186	11974736	1582645	26320058	19295532
1949		93944	15098354	357415	22499679	5031959	36938338	23249052
1950		136039	20910081	482882	138832379	8037120	52935890	38080595
1951		127603	19680990	475296	147330187	6753600	51137619	36715176
1952		126974	19673539	470728	151644830	7875840	50896435	3627307
1953	Jan-July	68080	10736216	274372	82757801	4789525	46908335	33421924
	Aug-Dec.	48221	7607766	172488	52491479	3556715		

Source: - The same as for Table I. p.12.

NATIONALISATION OF IMPERIAL BANK OF INDIA.

(A PART OF THE REPORT ON THE ICSSR PROJECT "NATIONALISATION IN INDIA'S NON-AGRICULTURAL SECTOR SINCE 1947- A STUDY IN POLICY OPTIONS.")

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Nationalisation of the Imperial Bank of India

Take over of the Imperial Bank of India (IBI) was one of the early acts of transfer of a running private business to public ownership, management and control in post-independence India and control. In section I the legal process and provisions of the take-over law are analysed along with the implications of key provisions of the law, including the issue of compensation. The size of the business transferred to public ownership is also discussed. Section II is devoted to a brief account of the beginning and growth of IBI, which may enable us to see its special relationship with the State and its evolution over time. Following from this, in section III we go on to discuss the changing role of IBI in the Indian economy in general and Indian banking in particular. The functioning and performance of the IBI are discussed with a view to examine the demand and rationale for its take-over; special attention in this connection is given to the question of agricultural and rural credit. On the basis of such a discussion, the factors and forces influencing the decision to opt for a mixed banking pattern are analysed. The section is concluded by placing the meaning and impact of the creation of SBI in the general economic and political context of the mid-fifties.

Right from the time when the process of transfer of power began in the forties, alongwith the demand for the State take-over of the Reserve Bank of India, there has persistently been a demand for the nationalisation of commercial banks in general and of the Imperial Bank of India in particular.[1] However, it was not until 1955 that the undertaking of the Imperial Bank of India (IBI) was transferred to the newly created State Bank of India (SBI) with the exception of the assets and liabilities of the Imperial Bank for its foreign branches.[2] The transfer of the IBI to State ownership was brought about in terms of Section 6 of the State Bank of India Act, 1955 (Act 23 of 1955).[3] According to this section, all the equity of the IBI was transferred to the RBI and the undertaking of the IBI was transferred to the SBI.[4]

The stated purpose of the take-over of the IBI and its constitution into the SBI was "the extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas and for diverse other public purposes."[5] The creation of the SBI on the basis of the nationalisation of the IBI was in pursuance of the recommendation of the committee of Direction of the All India Rural credit Survey. It recommended "the creation of one strong, integrated, State-sponsored, state-partnered commercial banking institution

with an effective machinery of branches spread over the whole country, which by further expansion (including further, but minor, amalgamation where necessary), can be put in a position to take-over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for cooperative and other banks, thus stimulating the further establishment of such banks, and, generally, in their loan operations, in so far as they have a bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the central government and the Reserve Bank."[6] It is clear that the main purpose for the take over of the IBI was the need to extend banking to hitherto unbanked rural and semi-urban areas. Accordingly, Section 16(5) of the SBI Act, 1955 specified the task of opening "not less than 400 branches ---- within five years of the appointed day or such extended period as the Central Government may Specify in this behalf."[7]

The total authorised capital of the SBI was fixed at Rs.20 crores, divided into twenty lakh fully paid up shares of Rs.100/- each.[8] On 1st July 1955 when the SBI was born as successor to the IBI, its issued capital was of the order of Rs.56,250,000 divided into shares of Rs.100. This issue capital was allotted to the RBI as a result of the transfer

to it of the shares of the IBI.[9] Though other persons were allowed to hold upto 200 shares which were "freely transferable", the RBI was enjoined to hold always not less than fifty-five percent of the issued capital of the SBI and no person other than the RBI would be "entitled to exercise voting rights in respect of any shares held by him in excess of one percent of the issued capital."[10]

Following from this, in addition to the RBI, there were as many as 1,227 private shareholders holding about 8 percent of the Bank's issued capital.[11] These shareholders were entitled to elect from 2 to 4 directors on the Central Board of the Bank, depending on the size of their shareholding.[12] Despite such private share-holding and their representation on the Central Board of Directors, the SBI remained a public unit, because of assured and permanent majority shareholding of public agencies and their over-whelming say in the management of the Bank. The private shareholding was a historical legacy of the take-over of the IBI. In fact, the First Schedule to the Act, making stipulations concerning the payment of compensation to the share-holders of the IBI, provided that a shareholder of the IBI is entitled to receive the shares of the SBI in lieu of compensation due to him.[13]

Thus private shareholding may be treated as a method of raising a part of the issued capital from the investing public and as a gesture to reduce the "fears" which extension of public ownership may cause in the business circles. It does not seem to compromise the essential public ownership character of the SBI, which remains a public sector unit.

The Act specified the management structure and business of the SBI. As seen above, the management chapter laid down specific tasks of opening new branches. It went further and laid down a basic management principle for guiding the operations of the Bank. Section 17(2) said that "the Central Board in discharging its functions shall act on business principles, regard being had to public interest."[14] This is serious principle which in effect means that the "sound" banking principle which in effect

the Anglo-Saxon tradition of security of the depositors' money by insisting on readily encashable equivalent collateral will have to be followed by the SBI. It means that the principles of public sector banking in the context of an active dirigistic policy of development[15] will not replace the on-going business practices of the IBI. In this way, except for branch expansion and making credit

available on business principles in newly banked areas, nothing disturbing to the existing pattern of banking operations was expected. The reference to "regard being had to public interest" was to entitle the Government and the RBI to issue specific directives as dictated by public policy and interest. Thus, the day to day operations were to continue as was the case prior to take-over. Such public interest directives were to be an occasional phenomenon.

This inference can be corroborated by refering to the defence of IBI put up by the Governor of the RBI in 1948. It was charged that the IBI "was over-conservative and almost wooden in its banking service."[16] The Governor of the RBI remarked that "conservatism was only prodent banking, and that in that respect he did not think the Imperial Bank was 'much worse' than some of the other major scheduled banks."[17] Thus business principles, commonly followed by all the major banks, considered "conservative" by some were considered" 'prudent' in official quarters, which were considered inescapable in the prevailing Indian conditions and hence incorporated in the take-over Act as the guiding principles, Since according to the views of the Governor of the RBI, "business and commerce, to a large extent, were to remain within the private sector, it was not at all necessary .... that the main part of the

banking system should be run as a nationalised institution,"[18] the stipulation that the nationalised bank must function on the basis of business principles was meant to reconcile the functioning of the nationalised bank with the logic of a predominantly private enterprise economy.

That the business classes considered this stiupulation concerning the operational principles of the nationalised bank critically important follows from the approving manner in which it was recalled by a President of the Federation of Indian Chambers of Commerce and Industry in order to contrast the absence of such a provision in the nationalisation of banks Act of 1969. He said, "Even when the Imperial Bank of India was nationalised and re-named the State Bank of India, the Act specifically provided that the Board would be guided by considerations of "business principles, regard being paid to public interest". This double-criterion in the operation of the banks is absolutely necessary because in the absence of business principles it is likely that the credit may be given indiscriminately involving the banks into bad debts and heavy looses."[19] Thus business principles, preventing bad debts and heavy losses, tend to allocate credit to those who pass the conventional tests of creditworthiness and prevent credit from being deflected to those who are on the periphery of a property-owning system.

This business principle, then serves business interests admirably. The importance of this provision increase in view of the opposition of the nationalisation of the IBI by the FICCI.[20] Having failed in stalling the take-over, the recourse to business principles as the guiding principle appears as the second line of defence.

That the insertion of the "business principles" section was a well-though decision of considerable importance can be seen in the pointed and detailed discussion on its implications contained in the Annual Report of the RBI for the year 1956. It says,

> The State Bank's charter is based on the axiom that there does not exist in essence, and need not obtain in fact, a contradiction between sound business principles on the one hand and the public interest on the other. Assuming that the relevant considerations of public interest are broadly synonymous with the major objectives of the Second Five Year Plan, the belief underlying the charter will be falsified only if "sound banking" cannot co=exist with those objectives and must, therefore, find for itself a niche outside the Plan; but that of course would be a position which merely has to be stated in those terms to be seen to be untenable. The fact is that given the necessary responsiveness, it is perfectly possible to synthesize the objectives of planned development with sound business methods."[21]

It is apparent from the above that the harmony and possibility of synthesis between the objectives of planned development and sound business principles is taken as

exiomatic - a position based on belief such that anything contrary to it is seen to be untenable. How can it be so unless there is a tacit assumption that "since business and commerce, to a large extent, were to remain within the private sector", the very nature of capitalist development sought by means of five year plans harmonises business principles with objectives of public interest? The formulation of the RBI, quoted above, seem to be based on such an identity between the objectives of the second plan and the principles of sound banking. The RBI's Central Board of Directors saw the importance of the take-over of the IBI in terms of the potentialities for growth resource mobilisation and influencing the pattern of resource utilisation "without deviating from its orbit.[22] In order to drive home this message, it is explicitly stated by the Central Board of Directors of the RBI, "That the role of bank vis-a-vis the private sector of commerce and industry will be one of undiminished usefulness and importance is clear from the assurances given on behalf of the Government".[23]

Such an act of transforming private ownership and control had its rationale in giving a new dynamism to the growth of banking facilities for mobilising additional resources and using them is consonance with the objectives of the Plan, which, in essence, the policy makers believed,

were not in conflict with the sound banking principles and leave the access to credit for the private sector undiminished. For this a public sector bank which "continues to be the foremost banking institution of the country" and "will grow in size and stature, both in absolute terms and in relation to banking structure as a whole"[24] was brought into existence.

The importance of the insertion of the provision about sound banking business principles which tended to protect business interests after nationalisation, has to be seen in the light of the known attitude and approach of key decision-makers who were intimately connected with the decision to nationalise the IBI and its implementation. The demand for take-over of the IBI was, as we shall see, often voiced inside and outside the legislature.[25] In January 1948, the Finance Minister requested C.D. Deshmukh, the then, Governor of RBI, to set down his personnel views on the nationalisation of both RBI and IBI. Deshmukh categorically came out against the nationalisation of both.[26] However, in the same year the Finance Minister stated that the Government accepted the policy of nationalisation of IBI and wanted to examine various technical questions.[27] However, it was opposed by Sardar Patel on the basis of confidential advice

from C.D. Deshmukh that the time was not ripe for such a step.[28] C.D. Deshmukh was also close to business circles as brought out by S.L.N. Simha, an important functionary of the RBI and author of the official history of the RBI. He said that, "Actually, it was Shri B.M. Birla who worked hardest to secure the appointment of Deshmukh as Governor."[29] Deshmukh was the Union Finance Minister at the time of setting up of the SBI and his views must have had influence on various legal provisions contained in the SBI Act.

Some other aspects of the management system prescribed in the Act tended to take care of the business interests. The private minority shareholders were, as seen earlier, entitled to elect two to four members, depending on the actual size of their shareholding on the Central Board of Directors. In addition, 2 to 6 directors were to be nominated by the Central Government "from among persons having special knowledge of the working of cooperative institutions and of rural economy or experience in commerce, industry, banking or finance."[30] Many of such directors were then bound to come from the business classes, as was cooroborated by the experience.[31]

The position of the IBI at the time of its take-over in some important respects was as follows:

1.	Number of Branches:	243
2.	Number of Employees:	14,462
3.	Reserves:	Rs.6.35 crores.
4.	Deposits:	Rs.188 crores (19.1 percent of the total for all the banks).
5.	Advances:	Rs.110 crores (18.9 percent of the total for all the banks).
	of which to industries;	Rs.63.1 crores.(57.36 percent of total)
	of which to agriculture:	Rs.35 lakhs.(about 0.32 percent of the total)
6.	Investment in Government Securities:	Rs.87 crores.
7.	Paid-up capital	Rs.5.63 crores.
8.	Net worth:	Rs.12 crores
9.	Assets:	Rs.241.36 crores.

Source: <u>The State Bank of India, A Plan and Its fulfilment op.cit.</u> and various annual reports of the IBI.

These facts show that the IBI was the premier commercial bank of the country accounting for nearly one-fifth of the commercial banking in India. With its specified task of vigorous expansion of branches, the share of the SBI in the

bamking sector was destined to grow both absolutely and relatively. Thus the nationalisation of the IBI gave the public sector a decisive foothold in India's commercial banking.

The nationalisation of the IBI been described as a take-over of some foreign interests. It was maintained by an M.P. that "The Imperial Bank has a long history of being one of the most important financial instruments in the hands of British Finance capital in India."[32] While on the one hand, the nationalisation of the IBI was taken as a reduction in the role of foreign financial interests, on the other hand, it was suggested that the liberal compensation terms benefited foreign finance capital.[33]

This position does not seem to be fully supported by the facts. The distribution of shareholding of the IBI was as follows:

No. of shares	Category of shareholders	Percent	Percent share in PUC
9785	Indian shareholders	91.08	61.74
616	Non-Indian "	5.73	10.6
324	Trusts and companies	3.01	27.7
Total 10,743			

Source: Compiled from Lok Sabha Debates. op.cit.

Thus unless the foreign interests are shown to be entrenched through companies and trust, they controlled only 10 percent of the PUC of the IBI and their number was about 6 percent of the total shareholders. Thus neither in terms of control nor in terms of excessive share of liberal compensation could foreign interests seem to be too important in the IBI.

As with respect to the RBI take-over, the compensation issue was a bone of contention with respect to the take-over of the IBI as well. Compensation in terms of the provisions contained in the First Schedule of the Act was to be given to the shareholders.[34] This was unlike the case of airlines where the compensation was paid to the companies whose undertakings were taken-over.

The IBI had 75,000 fully paid up shares of Rs.500 each and 150,000 partly paid up shares of Rs.125 each, totalling PUC of Rs.56,250,000. The Act provided that the rate of compensation for the former will be Rs.1765.62 and for the latter Rs.431.77. The shareholders were entitled to receive the backlog of dividends. The compensation was paid in terms of Central Government Securities, though upto Rs.10,000 an option to receive it in the form of cash was also granted.[35] Total compensation amounted to about Rs.19.72

crores, of which Rs. 16 crores went to fully paid up shareholders.[36] As seen earlier, an option to go in for the shares of the successor bank was also offered to the share holders.

The Act specified the amount of compensation per share, without divulging the basis or principle for arriving at the specific amount. However, in the course of the parliamentary debate it was mentioned that this compensation figure is arrived at on the basis of the average price of the shares for the period of twelve months before the announcement of the decision to nationalise the IBI.[37] This compensation amount was considered excessively liberal from the point of view of the shareholders of the IBI. As a result, an M.P said "we are in this manner going to manufacture in our country certain fortresses, so to speak, very strongly fortified fortresses, of capitalist interests."[38]

The compensation amount as a proportion of PUC came to over 350 percent and as a proportion of net worth, it amounted to over 153 percent. These shareholders had been receiving consistently very good dividends for a long period.[39] In view of these facts, the amount of compensation appears to be high. It was also higher than the compensation given to civil aviation companies and the RBI, which had

already been nationalised. An M.P. pointed out that on the eve of the introduction of the nationalisation bill, and even after its introduction, the price of IBI shares was less than Rs.1765. He went on the argue that "it is quite clear that a Rs.500 share which brings a dividend of 16 percent cannot be valued at Rs.1765. That is not a proper compensation. That is a compensation at the expense of the country's tax-payers." The relationship between net worth and the compensation amount, as also the principle of compulsory acquisition at the average market price, indicate that the general commercial principle of purchasing business assets at the going market price was followed. The elements of compulsion and unilateralness associated with an act of nationalisation were not allowed to operate in a manner which may harm the financial interests of the erstwhile shareholders. In so far as any nationalisation of a particular business enterprise is likely to cause misgivings in the minds of entrepreneurs and adversely affect future private investments, liberal compensation alsmost equal to market price, tends to reassure business. In fact, such compensation also provides money capital for further investments.

Thus the nationalisation of the IBI - a bank which had a special status in so far as it was created by a public law and had a special place in Indian monetary and credit system

as an institution which performed certain functions of a branch of the RBI[41] - was an act which brought a sizeable part of commercial banking under public ownership and management. The legal provisions concerning the take-over were such that they neither imposed a financial loss on the former shareholders through transfer to public ownership, nor the operational principles of the successor bank were allowed to prove uncomfortable to the bulk of trade and industry which remained in private hands. The major new thrust of the SBI was to be in the form of speedier branch expansion. This was in no waylikely to harm the interests of the business classes, particularly in view of the provision of an Integration Development Fund to be created out of the resources made available by the RBI or the Central Government and the dividend payable to the RBI in order to meet the losses which may arise out of the branch expansion programme.[42] In fact, such expansion may prove beneficial to to the business interests.

Thus expansion of public spheres of ownership and control brought about by the nationalisation of the IBI, considered essential, as we see below, for meeting the needs of rural credit, did not have such features as may disturb the prevailing institutional pattern of the economy. Nor

did it cause more than the minimum unavoidable hurt to private enterprise in India. In any case, the IBI had from its very inception strong streaks of State association with it. In fact, way back in 1919 the Finance Member, Mr. H.F. Howard made it clear in the Legislative Assembly in the course of the debate on a private resolution recommending the setting up of a State Bank that the planned amalgamation of the Presidency bank into the Imperial Bank may well serve the same purpose, and that this intial step would not commit the Government for all eternity to a private bank as compared with a State Bank, and that there is nothing to prevent it from developing as necessary.[43] It may, therefore, be inferred that the evolution of the IBI into a public sector SBI was not altogether unexpected, marking a very pronounced break from the normal course of development.

II

In fact, a brief historical account of the beginning and growth of the IBI is likely to show the process by which increasing state participation in the IBI came about, culminating in its nationalisation. This account will also to a certain extent show the role played by the State in the development of banking institutions in India.

The IBI was formed, under the authority of the Imperial Bank of India Act, 1921, which was passed by the Indian Legislative Council in September 1920 and came into effect in January, 1921.[44] It came into existence primarily as a commercial bank which was also "entrusted with certain central banking functions,". It was formed by the amalgamation of the Presidency Banks of Bengal, Bombay and Madras - a spontaneous amalgamation in the form of "the natural growth of banking evolution" and intended to counter the fear that "powerful banking interests abroad might secure control over Indian banking".[45] This scheme of amalgamation was approved by the Government in September 1919.[46] Though it was a private commercial bank, it had its charter in an Act of the Government and owing to its limited central banking functions, as many as 10 members on its Central Board, out of a total of 16, were appointed by the Government.[47] It must be noted that it was prevented from transacting foreign exchange business and was required to open 100 branches within the first five years.[48] "So the Imperial Bank of India was born as a giant but not as a giant among pigmies ...... In the Act governing the new bank, most of the restrictions on the kind of business permitted to it were taken over from the Presidency Banks Act of 1876. So continuity was maintained not only in respect of the relationship of the Bank to the Government but also

in its relationship to the general world of commerce."[49]

What emerges from the above account is that the Government regulated the genesis and functioning of the IBI, but even its predecessors, - the earliest banks in India, - evolved and functioned in terms of a public law specifically enacted for the purpose.[50] Eventual assumption of direct control over such banks by the State has to be viewed in the light of this feature of their origin. This assumes marked significance in the context of the fact that upto 1949, there was no separate law for controlling banking companies except the Indian companies Act, as amended in 1936.[51] It means, as distinct from the other banks, a need was felt for having specifically formulated law for the Presidency banks and subsequently for the IBI. It also suggests that since these banks were the earliest to develop in India, the growth of banking was not left to spontaneous market forces but was, from the very inception, mediated and regulated by governmental action. The question then arises: why was the IBI, which was regulated by a special law and was subject to government control from its beginning, brought under direct public ownership?

III

In terms of its statute, the IBI was not only a commercial bank (except being barred from foreign exchange business) but was a bank of bankers and of government, which managed clearing houses and provided remittance facilities and had a statutory obligation to open 100 branches in the first five years of its existence. These features gave it a unique position in Indian banking. As there was no separate and independent central bank in India during the first fourteen years of its life, it is natural that it loomed large on the Indian banking scenes as a quasi-central banks. Its deposits, which were of the order of Rs.72.58 crores in 1921, increased to Rs.79.25 crores in 1928 and to Rs. 81 crores in 1934. Under the impact of the depression, its advances which stood at Rs. 53.90 crores in 1921 and at Rs.61.60 crores in 1928 came down to Rs.29.01 crores. However, its holdings of government securities increased considerably during the same period from Rs. 11.17 crores in 1921 to Rs.41.56 crores in 1934.[52]

It played an important role in the development of commercial banking, in terms of branch expansion, development of remittance facilities and giving help to other banks.[53] As it was not being authorised to issue paper currency, its

capacity to act as banker's bank was limited. It fulfilled the obligation regarding opening of new branches which increased from 70 in 1920 to 202 in 1928 and 243 at the time of its take-over.[54]

After the establishment of the RBI, the IBI ceased to be a bankers bank and acted, under an agreement, as the sole agent of the RBI in places where the latter did not have a branch. The availability of government funds to the IBI solely upto 1935 and partly after 1935, gave it an edge over other banks.[55]

Despite the setting up of the RBI, the IBI continued to operate in terms of a special law, which added to its standing *vis-a-vis* other joint-stock banks in the public eye. It was not allowed to undertake foreign exchange business, or give advances against immovable property and for periods longer than six months.[56] After the RBI was set up, the IBI act was amended to modify control over it and some of the restrictions on its activities, like engaging in exchange business, were removed, while other restrictions continued, as a consequence of its continued handling of government funds.[57] Its branches amounted to more than one-third of all the other Indian Banks.[58] Thus its size, relationship with the Government and status enabled the bank to give severe competition to the other banks.

The growth of the bank can be seen in terms of the size of its deposits, advances and holding of government securities at the close of mid-year accounts in 1955. Compared to deposits of the order of over Rs.72 crores, advances of the order of nearly Rs.54 crores and government securities of a little over Rs.11 crores in 1921, towards the middle of 1955, on the eve of its take-over, the respective amounts were Rs.208.10 crores, Rs.115.60 crores and Rs.89.57 crores.[59] One finds that the holdings of government securities continued to exceed advances. The credit-deposit ratio which was 74.26 in 192 came down to 55.55 in 1955.

The bank invited a good deal of adverse criticism. The IBI had a good deal of foreign interests in it; partly following the legacy of the three Presidency banks. As Panandikar pointed out, "there was no provision in the Imperial Bank Act to secure a majority of Indians among the Bank's shareholders, and Central and Local Boards, and a little more than half of the paid up capital of the Bank belonged to non-Indians."[60] With a large number of the members of the Central Board being nominated by the British Government in India, there were additional reasons for the dominance of non-Indians in the management of the IBI. For instance, as late as 1947, (ignoring the Indians related to

or representing foreign companies) there were 8 non-Indians on the Central Board of the IBI, out of a total of 15.[61] After the installation of the national government, the number of non-Indians on the Central Board declined; on the eve of take-over it came down to one out of 16.[62] As the official history of the RBI points out, "there was a general belief that the bank's operations favoured the European Business interests in India and that small industrialists and traders had little access to it. These views, in fact, persisted for many years even-after the establishment of the Reserve Bank of India."[63] It has also been pointed out that the members of the Legislative Assembly "cited the experience of the IBI as an unhappy one as, according to them, a few big industrialists entrenched themselves in office as directors by getting re-elected and manipulated its policies to suit their own interests." So much so that T.T. Krishnamachari described the IBI as "a tumor in the body politic of this country."[64] The point about discrimination in favour of non-Indians was also made by the Bengal Provincial Banking Enquiry Committee. But the IBI took refuge under the business principle of being guided by the standing of the firms or persons.[65]

The IBI did not respond to the needs of development in various regions of the country. Referring to the needs

political movement for freedom and its concomitants in the sphere of business and finance, made the bank a target of public criticism and attracted more direct state interventions.

Another criticism of the policies of the IBI concerned its limited role in the growth of a bill market in India as its cash credits outdistanced the purchase and discounting of bills.[72]

These criticisms and the loss of political authority by the British weakened the defences of the IBI against its State take-over. During the days of transfer of power, the Legislative Assembly heard the demand for the take-over of the bank.[73] The matter came up again in the legislative in 1948 in the form of a question and the Government accepted in principle the demand for nationalisation of the IBI and wanted to examine the technical question involved owing to the existence of IBI's branches abroad.[74] Predictably, the Central Board of the IBI opposed this announcement along with the support of the RBI. The RBI gave two arguments i) the State would be acquiring an asset, the value of which was bound to diminish following the closure of the IBI's offices in Pakistan, Ceylong and Burma, and ii) as a result of nationalisation, the 'cream' of the business was expected

of development in various regions of the country, particularly referring to the needs of Travancore-Cochin, it was pointed out that "Imperial Bank and other 'outside' Banks, which had long been operating in the coastal trade centres here, did not meet any tangible part of such needs."[66] Many other provincial banking enquiry committees brought out the neglect of their respective regions by the Imperial Bank and the concentration of resources at the Local Head Offices in the Presidency cities.[67] Given the colonial pattern of regional growth, there was little unexpected in the pattern of deployment of the IBI's resources.[68] No wonder it was charged that the bank used its branches more for collecting deposits in the hinterland than for financing trade in the interior.[69]

To a certain extent, the discriminatory approach of the bank was related to the fact that its semior staff was largely non-Indian and further recruitment of non-Indians was continued util 1930.[70] Referring to this criticism, the Governor of the RBI said in 1948 that as a result of stopping European recruitment, by 1954 only 9 or 10 such officers would be left with the bank.[71] The point probably is not so much of the number of non-Indian senior staff or of increasing Indianisation. However, this fact put the bank on a different footing and, in the context of the

to be transferred from the IBI to the other banks in the country.[75] Though both the arguments seem superficial and not related to the criticisms levelled against the IBI, they seemed to have played a part in the reversal of the government's decision to go in for nationalisation, which was announced by the Finance Minister in February, 1949, particularly in view of the likely adverse impact on the investment market.[76]

However, the criticism, of the IBI with respect to the neglect of agricultural and rural credit continued to retain its force.[77] With a view to serve the rural sector better, the Rural Banking Enquiry Committee neither suggested a State take-over of the Bank nor the setting up of anew state-sponsored institution.[78] They came up with the proposal of a sizeable branch expansion under the aegis of the IBI on which the extent of State control was recommended to be increased.[79] Thus the solution suggested by the Rural Banking Enquiry Committee amounted to be a precursor of what in mid-sixties came to be known as social control over banking. The committee maintained that the IBI is "to all intents and purposes, functioning as a State-sponsored bank" and can legitimately be "developed as a national organisation,"[80] for meeting the needs of rural credit. The bye-laws of the banks were amended in 1952 to permit Government nominated

directors to attend the meetings of the committee of the Central Board of the bank.[81]

Much headway could not be made in terms of the recommendations of the Rural Banking Enquiry Committee. Though the IBI agreed to open 114 branches against the recommendation of about double this number. It was reported in 1955 that only 63 new branches[82] (out of the recommended number of 218 for a period of five years)[83] could be opened. According to the findings of the All-India Rural Credit Survey, commercial banks provided less than one percent of the credit needs of the cultivators.[84]

In view of these trends, the demand for the nationalisation of the IBI persisted.[85] The opposition by the IBI's Board to the scheme of extension of public control by amending the composition of the bank's Board[86] also did not enable a fair trial being given to the scheme of greater public control, which might probably have weakened the demand for its take-over. Meanwhile the recommendation for the nationalisation of the IBI by the Committee of Direction of the All-India Rural Survey[87] gave a powerful impetus, expert prestige and a high degree of authority to this proposition.

The Survey Report presented an exhaustive account and analysis of the rural credit scene. It noted the efforts made towards provision of banking, credit and remittance facilities to rural India through the agency of the IBI as grossly inadequate and unlikely to be realised by a private shareholders' bank which finds the rural branches unremunerative. Therefore the committee recommended the conversion of the IBI into the SBI and the statutory amalgamation of ten major state-associated banks and certain other banks with the new SBI alongwith provision for similar compulsory amalgamation of suitable relatively smaller commercial banks.[88]

We have seen above the objectives which were sought to be achieved by the SBI which was formed by nationalisation of the IBI but without amalgamation of other banks.[89] There was, expectedlym opposition of the nationalisation law (in the form of the SBI Act) by the share-holders and the business community in general.[90] The compulsive nature of the need to take banking and bank credit to agriculture, which had a fairly ambitious growth targets to meet during the ensuring Second Five Year Plan - a task for which the commercial banks in general and the IBI in particular had proved themselves unequal, despite special regulation of the

latter for this purpose - left the government with little choice save the setting up of a totally publically owned and controlled bank. It was the beginning of the policy of mixed (both public and private sector) banking. Opening new branches in rural and semi-urban areas was unlikely to yield private profits at least in the initial stages, but had a high social priority. Hence the conversion of the biggest private bank into a public one.

Apart from being a convenient instrument for meeting the credit needs of agriculture, the rural branches could serve an important social function of mobilising rural savings. At least one powerful and large commercial bank in the public sector, while serving an important task following from the logic of general economic policy thrusts embodied in the plans, would not cause much misgiving to the private sector, because, as it was, the IBI was considered a "semi-public" bank.[91] That misgivings were there in the minds of the business classes concerning the thrust of public policies was made explicit in the Lok Sabha when a member quoted, in the course of the debate on the SBI Bill, the Report of the RBI Committee on Finance for the Private Sector (Shroff Committee, 1954) as follows: "the committee feels that in the past few years several changes have occurred in the socio-economic climate of this country which tend to

discourage and discredit private enterprise. The Committee is of the opinion that unless these inhibiting factors are remedied, mere multiplication or strengthening of agencies supplying finance will not add much to industrial development."[92]

Thus the introduction of a fairly large sized public sector bank alongwith the operation of many private joint-stock commercial banks seemed to reconcile the purpose of meeting agricultural needs without distrubing other commercial banks better geared to trade, industry and larger urban centres. It was a kind of a mixed banking institutional pattern which was a replica of what is commonly known as the mixed economy model of co-existence of public and private sectors adopted in India. The general ideological climate following the adoption of "the socialistic pattern of society," could not but have facilitated government in overcoming the remaining hesitation concerning the decision to take-over the IBI. Though there was nothing specifically socialistic about the nationalisation of the IBI,[93] it could obviously come as a grist to the propaganda mill of the ruling Party as a socialistic measure.

It can also be sumrised that since the IBI had the image of being a bank with powerful non-Indian interests and

was the only Indian bank with reckonable equity participation of non-Indians and was not associated with any large industrial house, as was the case with the other major scheduled Indian banks, the decision to nationalise it was in political terms the least capable of facing any consequential resistance. The quity interest of the non-Indians was also not too strong to evoke much opposition from their side. Ultimately if one large bank was to be taken-over for implementing public policy concerning rural credit and branch expansion, and for carrying out treasury-work in places where the RBI did not have a branch, it is obvious that being the largest bank with a long tradition of special relationship with the government, the IBI was to be the natural choice.

By providing explicitly in the law that the day-to-day, and hence major, functioning of the SBI would be based on canons of sound banking, except for following specific public interest directives from the RBI and the government, it was ensured that the nationalisation of the IBI would cause no unsettling effects on the general institutional pattern of the economy which was heavily weighted in favour of private enterprise.[94] This was a will thought out provision, as can be inferred from the fact that the Committee of

Direction of the All India Rural Credit Survey, while recommending the take-over of the IBI, inserted the significant caveat that the successor bank would follow the national policies "while not deviating from the canons of sound banking."[95] Through limited, minority shareholding, private individuals, particularly the shareholders of the IBI, were given representation on the Board of the SBI. Interpretation of "canons of sound banking" was likely to be affected by the presence of businessmen on the policy-making bodies. It may well be interpreted to mean that national policies inconsistent with the canons of sound banking were not likely to be followed by the SBI.

Thus, it can be concluded that the nationalisation of the IBI - already a "semi public bank" - was essentially an outcome of the special circumstances attending agricultural credit which needed urgent attention not only to overcome its historical neglect, but also to serve the future needs of agriculture in terms of thepolicies and programmes initiated in terms of the five year plans. It went well with the apparent shift in the ideological underpinings represented by the adoption of the socialist pattern of society resolution. But if our analysis and interpretation of the forces underlying this decision are valid, it follows that it did

not mark any tendency towards treating restructuring of property relations and consequent changes in social relations as a normal, generally usable policy instrument. The significance of the take-over of the IBI consists, on the one hand in not treating property relations as absolute, sacrosant entities, a la some classical conservative circles, and, on the other, in the choice of such a private unit for nationalisation which would serve immediate exigencies without causing much hurt or misunderstanding in circles naturally hostile to any nationalisation - but who constitute important pillars of the economy and its strategy of growth. With the advantage of hind sight, it can be said that the relatively sparing use of nationalisation as a policy instrument in the following years upto late sixties and the great and protracted debate over the nationalisation of other major commercial banks lend credence to our inference.

Notes

1. History of the Reserve Bank of India, op.cit. p. 529 (later on referred to as history)

2. Government of India: Report of the Banking Commission, Delhi 1972, p. 35

3. Government of India, Ministry of Law. The State Bank of India Act, 1955 Delhi, 1965, p. 3

4. Ibid, p. 3

5. Ibid, p. 1

6. Reserve Bank of India, Report of the Committee of Direction, All India Rural Credit Survey, (General Report) Vol.II, Chapter 10 Bombay, 1954, p. 404

7. The Act op.cit. p. 7

8. Ibid, p. 2

9. Ibid. p. 2

10. Ibid. p.

11. SBI: The State Bank of India: A Plan and Its fulfilment July 1955 - June 1960. issued on the occasion of the opening of the Bank's 400th new branch, June Ist, 1960. Bombay.

12. The Act, op.cit. p. 8

13. Ibid. p. 38

14. Ibid. p. 8

15. Kabra, K.N. and Suresh, R.R., Public Sector Banking, New Delhi, 1970, Chapter.

16. History of the RBI, op.cit. p. 516

17. Ibid. p. 516, emphasis added.

18. Ibid. p. 517

19. Ramnath A. Podar, "Purposive Direction to Credit", in Nationalisation of Banks: A Symposium, Publications Division, Ministry of Information and Broadcasting Government of India, Delhi, 1970. p. 44, emphasis added.

20. *Lok Sabha Debates*, 1955 Part II, Vol.4. speech of Shri H.N. Mukherjee p. 6139.

21. RBI, *Annual Report 1956*, pp. 21 - 22 emphasis added.

22. *Ibid.* p. 21

23. *Idem*

24. *Idem*

25. See notes no. 63 and 75

26. *History*, *op.cit*, pp. 514 - 517

27. *Ibid.* p. 517

28. Quoting C.D. Deshmukh's book *The Course of My Life*, this has been pointed out in Chenoy, Kamal, A.M., in his unpublished Ph.D. thesis of J.N. University "Industrial Policy and Big Business in India. A case study of FICCI, 1947-66", p. 258

29. Simha, S.L.N. "*All the Bank's Men*. Institute of Financial Management and Research, Madras, 1975. p. 105.

30. *The Act* *op. cit.*, p. 9

31. In the initial stages, the Board included businessmen like Shri Ramnath A. Podar, Shri M.H. Hashen Premji, Shri V.S.T. Mudaliar, Shri Bharat Ram, Shri D.P. Goenka, etc. See, The SBI: on Plan and Its fulfilment, *op.cit.* p. 54, Similar was the case with the local Boards.
    As Shri Sadhan Gupta, M.P. said in the Lok Sabha Debate, "the Central Board is more likely to be the preserve of big business" *op.cit.* p. 6249

32. *Lok Sabha Debates*, *op.cit.* p. 6136

33. *Ibid.* p. 6389. "It had been mentioned that foreign interest in the Imperial Bank is rather high and they will get the benefit of the proposed compensation." A.C. Guha.

34. *The Act*, *op.cit.*, p. 5 and pp.37-38

35. *Ibid.* pp.37 - 38

36. *Lok Sabha Debates*, *op.cit.*, p. 6140

37. _Ibid._ p. 6251

38. _Ibid._ p. 6140

39. "From 1921 to 1931, the dividend declared has been 16 percent free of income tax. From 1931 to 1944, it was 14 percent free of income tax, and from 1950 to 1954, it was 16 percent free of income tax." _Ibid._ p. 6273

40. _Ibid._ p. 6151

41. _History of the RBI_, _op.cit._ p. 25

42. _The Act_, _op.cit._, Chapter VII. page. 28

43. _History of the RBI_, _op.cit._ p. 25

44. _Ibid._ p. 25. Also, Bagchi, A.K., "The First century of the State Bank of India: Changes in the structure and Functions." in _SBI Monthly Review_, Dec. 1978 - January 1979, p. 20.

45. _History of the RBI_, _op.cit._ p. 24 and p. 25

46. _Ibid._ p. 24

47. _Ibid._ p. 26

48. _Ibid._ p. 26. Also Bagchi. _op.cit._ p. 36

49. _Bagchi_, _op.cit._, p. 37

50. _Ibid._ pp. 20-32.

51. _History of the RBI_, pp. 450-451

52. _Ibid._ p. 63

53. See, Panandikar, S.G., _Banking in India_, Calcutta, 1959 Chapter X, for extensive references to various Provincial Banking Enquiry Committees discussing the role of the IBI. It helped avert bank failures in cases of the Alliance Bank of Simla, Tata Industrial Bank, Bengal National Bank, Central Bank of India etc. Also Mathur, O.P., _Public Sector Banks in India's Economy_, Delhi, 1978, pp. 12-15.

54. *Ibid.* p. 294 and 301.

55. "Even if 1/6 of its total funds were assumed as being obtained free of interest (government funds), and rates paid by it on private deposits were taken to be as high as those of the other big banks, Dr. Muranjan has calculated that the former could not account for an advantage in the gross rate of profit of more than ½ percent." Panandikar, *op.cit.*, p. 304. This argument seems to ignore the effect of the availability of government funds on the size of potential advances by the IBI.

56. Panandikar, S.G. *op.cit.*, p. 296

57. *History*, *op.cit.*, p. 65

58. *Ibid.* p. 301, "Although, Government balances and certain other accounts were transferred from it to the Reserve Bank, the total deposits of the Imperial Bank were still larger than the Indian deposits of all the Exchange banks and not very much less than those of all the Indian Banks." p. 305, It held nearly 30 percent of the deposits of scheduled banks. *RBI History*. *op.cit.* p. 464

59. Panandikar, *op.cit.*, p. 299

60. *Ibid.* p. 309, We have seen above, at the time of take-over their share came to 10.6 percent, with the nationality of trusts and companies holding about 28 percent of the shares remaining unspecified.

61. The Investor's Year Book, 1945-47, 33rd Edition, Bombay. p. 32. In two Local Boards at Calcutta and Madras, there were 5 non-Indians respectively and at Bombay, there were three out of a total of seven.

62. *Ibid.* for 1954. Fourtieth edition.

63. History. *op.cit.* p. 65

64. *Ibid.* p. 84, This was in the course of the debate on the Reserve Bank of India Bill, 1933. Also Panandikar, *op.cit.* p. 310. ...../-

65. As cited by Mathur, O.P., *op.cit.*, pp.14-15

64. ...../- In the course of the debate on the Banking companies Bill, 1944, Shri T.N. Krishnamachari wanted the IB Act to be repeated and wanted that the IBI should be brought under the scope of the proposed Bill. He made a strong criticism of the IBI. See *History of the RBI; op.cit.* p.462.

88. Report of the All India Rural Credit Survey. op.cit.p.404. The ten banks were: State Bank of Sourashtra, Bank of Patiala, Bank of Bikaner, Bank of Jaipur, Bank of Rajasthan, Bank of Indore, Bank of Baroda, Bank of Mysore, Hyderabad State Bank and Travancore Bank. Smaller banks mentioned were: Sangli Bank, Manipur State Bank, Bank of Baghalkhand and Mayurbhanj State Bank.

89. See Note 6 earlier.

90. Panandikar, op.cit. p. 315

91. Report of the Rural Banking Enquiry Committee, op.cit., p. 26. It said, "The peculiar position, unique status and semi-public character of the IBI and the historical background of its development are well-known."

92. This was quoted by Shri Ashok Mehta, See Lok Sabha Debates. op.cit. p. 6261.

93. "I think nationalisation of banking is not essentially or necessarily a part of socialisation. In fact a thoroughly reactionary country, like France, has a completely nationalised banking system." K.N. Raj, unpublished text of a speech at a Seminar on Bank Nationalisation, New Delhi, March 7-8 1964. The point is: nationalisation of a bank may have little to do with socialism though the latter is not possible without take-over of major banks.

94. Share of private sector in the fifties was rather low .*

95. See note 6. At another place, the same Report recommended that "There should be no interference by the State in the day-to-day operations of the SBI. Nor of course should there be any lowering of the standards of sound banking." Ibid. p. 413.

94. * Even aftdr the large investments of the first two plans, the share of public sector in GDP during 1960-61 to 1964-65 was only 12.12 percent. See, Rao, V.K.R.V., India's National Income 1960-1980. Page, New Delhi, 1983. pp. 41-42.

NATIONALISATION OF LIFE INSURANCE

(A PART OF THE REPORT ON THE ICSSR PROJECT "NATIONALISATION IN INDIA'S NON-AGRICULTURAL SECTOR SINCE 1947- A STUDY IN POLICY OPTIONS.")

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Nationalisation of Life Insurance

The life insurance business in India was brought under state control by means of two legislative enactments. As a first step, the Life Insurance (Emergency Provision) Ordinance was promulgated on 19th January, 1956. It vested in the Central Government, with immediate effect, the management of the 'controlled business' of practically all the insuers in India.[1] Thus, prior to nationalisation of life insurance, its management was taken over.[2] All the insuers continued to retain their separate identities and existence but were placed under the control of custodians, appointed by the Government, and drawn from the ranks of senior officers of insurance companies.[3]

The ordinance was replaced by the Life Insurance (Emergency Provisions) Act, 1956 in the month of March ,1956.[4] The normal procedure of enactment of a law through introduction of a Bill was not adopted and an ordinance was issued because it was felt by the Government that it in this way that "a serious frittering away of the assets" by "less scrupulous insurance managements"[5] could be prevented.

The Ordinance provided for the transfer of the control of 154 Indian insurers, 16 non-Indian insurers and 75 provident societies to the custodians appointed by the Government,[6] pending which the "existing managements of the insurance companies are able to carry on exactly as before" but" as agents of Government" and with a restriction of some of their powers.[7] At the time the Bill replacing the Ordinance

was moved in the Lok Sabha on 22th February 1956, 128 insurance companies who account for 96 per cent of the total insurance business were already managed by custodians and the management at the top was directly in the hands of the Government.[8] The ordinance was aimed at "eventual smooth and efficient integration" of a large number of insurers without disturbing normal business during the interim period of some five to six months.[9] During this period, a number of preparatory steps were taken towards the formation of a single State-owned life insurance corporation.[10]

The insurers were given compensation for loss of management rights for the period pending nationalisation on the basis of 1/12 of the annual average of the share of surplus allocated to the shareholders in respect of two actuarial investigations preceding management take-over and in cases where no surplus was allocated, at the rate of one rupee per month for every Rs.200 of the premium income of the insurer during 1954.[11]

The Act for the nationalisation of life insurance business in India was introduced in the Lok-Sabha in March 1956. The Life Insurance Corporation Act, 1956 (31 of 1956) provided for "the nationalisation of life insurance business in India by transferring all such business to a Corporation established for the purpose."[12] It can be seen that here is a law which explicitly uses for the first

time the word nationalisation for describing its main purpose. The Act provided that there shall be transferred to and vested in the corporation all the assets and liabilities relating to the controlled business, i.e. life insurance business, of all insurers, as defined in the Insurance Act, 1938, and included the government and provident societies.[13]

The Life Insurance Corporation a body corporate, with an original capital of Rs. five crores provided by the Central Government, was entrusted with the task to carry of life insurance business whether in and outside India in such a manner as to secure that this business "is developed to the best advantage of the community."[14] The Corporation has "the exclusive privilege of carrying on life insurance business in India."[15] Thus it was a nationalisation which created a legal public sector monopoly. The new corporation came into existence on 1st September, 1956.[16]

The insurers were compensated for the acquisition of their controlled business.[17] According to the First Schedule of the Act, three methods for determining the compensation amount were specified.[18] If the amounts so determined by the Corporation and approved by the Central Government are not acceptable to the insurers, the matter was to be referred to the Tribunals constituted for the purpose.[19] The Tribunal was set up in May 1957 with Shri P.B. Deo its Chairman. Seventeen cases were referred to it and upto 1958, it decided 13 cases, resulting in an increase of Rs.40 lakhs

in the compensation amount.[20] According to Part A method, called "capitalisation of earnings method"[21] provided for payment of twenty times the annual average of the share of surplus allocated to share-holders calculated in a manner specified in the schedule for insurers with share capital and who allocated a bonus to policy-holders. Following Part B, compensation was computed for insurers having a share capital who did not allocate any bonus to policy holders. For them, the asset valuation method was followed which required a compensation sum equal to the value of the assets minus that of the liabilities of the insurers relating to their controlled business on the basis of the principles and procedure specified in the Act.[22] Those companies whose capitalised earnings came to less than the paid-up capital, "were compensated at ten times the "adjusted annual average earnings" plus the paid up capital minus the capitalised losses and expenses not yet written off."[23]

For insurers other than those covered by Part A and Part B, those without share capital will be compensated at the rate of rupee are per thousand of the sum assured under each with-profit policy and those with share capital were entitled, in addition to the above, a sum equivalent to the paid-up capital of the insurer.[24] The Act also nullified the contracts between the insurers and their chief agens and between chief agents and special agents and compensated the chief agents and special agents; with the

former receiving 75 per cent of the over-riding commission for a period of ten years and the latter receiving one-eight of his annual average earnings by way of commission for a period of 3 years from 1952 to 1955.[25]

In terms of these provisions, and with some references to the Tribunal and the courts, the LIC distributed the compensation to the insurers over a number of years. The number of insurers entitled to compensation under Part A, B and C was 77, 89 and 69 respectively.[26] Upto 31st March, 1966, the total amount of compensation disbursed came to Rs. 5,21,45,726[27] i.e., a sum in excess of the capital with which the LIC was started.

Of the total of 245 insurers whose controlled business was acquired by the Government, 16 were non-Indian insurers, 75 were provident societies and the rest (154) were Indian insurers, including composite companies.[28] The organisational forms of these insurers, as revealed from the Indian Insurance year book for 1955 and 1956, was as follows:

1.	Indian Insurers carrying on Life business only: (as on 31/12/1955) of which	110
	a) Mutual Insurance companies and co-operative societies:	42
	b) Companies:	68
2.	Non-Indian Insurers carrying on life business only (as on 31st August 1956)	3
3.	Indian Insurers carrying on life business with other classes of business (all companies) (as on 31/8/1956)	38

4. Non-Indian insurers carrying on life business with other classes of business. (as on 31-8-1956). 12

5. Provident societies (as on 31/12/55). 23

(The numbers do not agree with the total as some companies do not report in a particular year).

Of the Non-Indian insurers carrying on both life and composite business, 10 were incorporated in U.K., 2 each in Pakistan and Canada and one in Kenya. Some 68 insurance companies which were in liquidation, 6 non-Indian insurers who ceased to enter into new contracts before 1st July 1939, 2 administrator-managed composite insurance companies (Bharat (Insurance Company Ltd., and Jupitar General Insurance Company Ltd.) and approved superannuation funds, which were registered as insurers under the Insurance Act, 1938 were left out of the purview of the LIC. Since these insurers were, not in business, their exclusion did not compromise the creation of life insurance business as a total legal public monopoly. By Insurance Amendment Act, 1957, the Central Government was empowered to exempt from the provisions of the Act, subject to specified conditions, any insurance business carried out by the Central or a State Government or a Government Company.[29] Thus life insurance remained a public monopoly though public agencies other than the LIC could be entrusted with this business.

Some important financial and operational information

about the nationalised insurers is as follows:

1.	Paid-up capital[30]	Rs. 1.4858 Crores
2.	Net-worth[30]	Rs.24.2685 crores
3.	Assets[31]	Rs. 411 crores
4.	Total Business[31] (or sum assured)	Rs. 1220 crores
5.	Total number of salried employees[31]	Rs. 27000
6.	Total Book Value of Investments[31]	Rs. 341.4 crores
7.	Total Book Values in India[31]	Rs. 2260 crores.

The total size of the life business nationalised and its distribution among various categories of insurers as at the end of 1955, as given in IIYB, was as follows:

TOTAL LIFE BUSINESS TAKEN OVER AND ITS DISTRIBUTION (as at end of 1955)

1.	Net Total Business in India of Indian Insures (No reported : 123)	Rs. 9812,331,000 (80.67%)
2.	Net Total Business outside India of Indian Insurers (No reported : 54)	Rs. 920, 404,000 (7.54%)
3.	Net Total Business in India of (No reported : 13)	Rs. 1385,330,000 (11.35%)
4.	Total Life Business in India of Provident Societies (No reported : 58)	Rs. 52,870,400 (0.43%)
5.	Total Business Taken-Over (1+2+3+4)	Rs.12200,935,400 (100%)

Total Life Business in India(1+2+3) of which:	Rs. 11280,531,400
i) Share of Non-Indian Insurers: (No. of Non-Indian Insurers : 17 of which data reported : 13)	12.28%
ii) Share of Indian Insurers : (No. 123)	87.25%
	99.53%

It is clear that, while the provident societies share was less than half a percent, the Non-Indian insurers accounted for 12.28 percent of the life business. Even among the Indian Insurers, who accounted for about seventh-eight of the life business, the insurance companies with over Rs. 5 lakhs as paid-up capital, accounting for about 12 percent of the companies, controlled over 41 percent of the total paid-up capital. The Table given below, based on data from IIYB, 1955, covering 100 insurers out of 110 falling in those categories (60 with paid-up capital and 40 for mutual benefit societies and co-operative societies) shows the distribution of insurers according to size of paid-up capital.

Size-group (Rs)	Percent of Indian Insurance Companies (Percent of those whose accounts were reported)	Percent of Total paid-up capital of the reporting insurers	
Less than 1 Lakh	25	5.38	70% of the companies own about 33% of the total PUC
1 Lakh - 2 Lakhs	45	27.92	
2 Lakh - 5 Lakhs	18.33	24.92	
5 - 10 Lakhs	8.33	23.88	
above 10 Lakhs.	3.33	17.90	About 12% of the companies own about 41% of total PUC
	100.00	100.00	

The life insurance business, which was acquired and vested in the LIC, had a high degree of concentration. This can be seen from the Table given below:

SIZE DISTRIBUTION ACCORDING TO NET TOTAL BUSINESS IN FORCE AT THE END OF 1955

(LIFE INSURANCE BUSINESS OF INDIAN)

Size Groups Net Business (Total) (Sum Insured & Bonuses)	Percent of Insurers in size-groups (those whose accounts are available)	Percent share of total net business in the size group.
Upto Rs. 10 crores	86.18	14.57
Over Rs. 10 crores	13.82	85.43

(i) Total Number of Insures Listed: 151

(ii) Of which Insurers who business figures for the year available 123

Total Business (Net) in force Rs. 9,84,28,31,000

Source:- IIYB, 1955

It can be seen that about 86 percent of the insurers transacted a little over 14 percent of life insurance business in India. On the other hand, a little less than 14 percent of the reporting insurers transacted nearly 86 percent of the business. Insurance business had a high degree of regional concentration as 103 out of 145 insurers leaving out the provident societies, had their head offices in Bombay, Calcutta, Delhi and Madras.[32]

There are inherent in the Indian situation good many factors limiting the prospects for the growth of insurance business, while there is an undoubtedly great need for this form of social security.[33] Life insurance business is one of the newer economic activities which began in India after the advent of the British on the Indian scene and its introduction in the second half of the 19th century may largely be attributed to the initiative of certain English companies.[34] The foreigners' initiated business of life insurance was initially confined to insuring non-Indian lives only and it was only selectively that this business was extended to cover Indian lives.[35] In fact, the story of the development of life insurance business in India is closely connected with the manner and extent to which the relative roles of Indian and non-Indian insurers changed right upto 1955 when this business was nationalised.

It can be seen from the table (on page 12) on the growth of insurance business that the share of policies with Indian insurance increased from about 68 percent in 1930 to about 90 percent in 1948, with the sums insured with Indian insurence increasing from about one-third in 1930 to about four-fifth in 1948. This change reflected the growing strength of the Swadeshi movement particularly in the early years of the present century.[36] The non-coverage of Indian lives led to a demand for a big governmental insurance company

for insuring the Indian lifes which the colonial rulers did not, of course, concede.[37] There were some attempts to set up insurance companies like Madras Equitable (1829), Madras Widows (1834), Christian Mutual (1847) etc., effectively, till 1870s, this business was largely in the hands of European companies. Indian Life (1871) and Bombay Mutual (1871) may be regarded as the first Indian insurers to make their debut.[38] But during the 19th century the growth of life insurance was rather modest and the failure of two British insurers, the Albert and the European, eroded people's confidence.[39] In fact, many insurers were resorting to questionable methods for securing larger business.[40] This was an additional factor which helped the growth of Indian insurers. For regulating the growth of insurance companies, in 1866 an Act for the registration of these companies was enacted, though the provisions of the Indian companie's Act 1882 were also used for the same purpose.[41]

An authoritative account of the progress of insurance business can be obtained from the Indian Assurance Year Book Publication of which was started by the Government in 1914 (after 15th issue, its name was changed to The Indian Insurance Year Book). Its first issue gave a history of early developments.[42]

The growth of life business, which could in a concrete sense be said to begin during the first decade of

the present century when most of the major companies surviving upto 1956 were founded, can be represented in terms of the rise in the number of companies, total business in force in terms of number of policies and value of policies as well as total life fund. This is summed up in the following Table.

GROWTH OF LIFE BUSINESS IN INDIA : 1914-1955

	1914	1930	1940	1945	1948	1955
1. No. of Insurers of which	44	68	195	215	209	245 **
Indian	44	68	179 (91.79)	200 (93.02)	189 (90.43)	229
Non-Indian	-	-	16	15	20	16
2. Total No. of policies in force of which	-	731027	16,28,381	271400	3016000	4782000 *
by Indian		513955 (70.31)	1371963 (84.25)	2376000 (87.55)	2791000 (90.15)	
By Non-Indian		202703	181247	261000	234000	
By Indian outside India		14369	75171	77000	202000	
3. Total Business in force of which	22.44	258.42	304.03	573.07	712.76	1220 *
by Indians	22.44	84.89 (32.85)	225.51 (74.17)	459.43 (80.17)	566.38 (79.46)	
By Non-Indians	-	69.76	60.12	91.85	101.08	
By Indians outside India	-	3.77	18.40	21.79	45.30	
4. Total Life funds (Rs. crores)	6.36	20.53	62.41	107.4	150.39	220.9 *

Figures in brackets show percentage of the total
Source: Bajpai, O.P. Elements of Life Insurance. op.cit., p.172. And Ray, R.M. Life Insurance in India
* Saga of Security: Story of Indian life. op.cit, p.36, and Insurance - Bombay, L.I.C., 1970. pp. 42-43.
** See foot note No.6.

It can be seen that the growth record of life insurance in absolute terms is fairly impressive. The number of operative policies increased nearly seven times and the business in force by almost five times over the period 1930-1955. Compared to Rs.22 crores of life business in force in 1914, it stood at Rs. 1220 crores in 1955. Not only the number of insurers generally increased, but a large number of smaller, non-viable insurers were either liquidated or amalgamated with stronger ones.[43] The insurance business had nearly an uninterrupted period of growth in the present century except during the First World War and during 1947-48 in the wake of the partition. The inter-war years, the Second World War and immediate post-war period saw rapid growth of life insurance in India.[44] In the early years of the century, there was preponderance of proprietary companies over mutual companies.[45]

The process of growth of life insurance was marked by certain features which tended to influence its spread, its investments and its capacity to mobilise savings. For a long time, the competition offered by foreign insurers based on their greater strength, larger business and unequal legal position affected the growth prospects of Indian insurers. The average insured sum per policy was much higher for the foreign insurance companies than for their Indian counterparts.[46] However, as seen, aided by the hostility generated by the

discriminatory approach of foreign companies[47] and Swadeshism, the Indian companies surged ahead to increasing dominance.[48] Then a large number of insurers of various sizes came up at different points of time. By offering competitive premium rates and excessive rebating, these companies tended to undermine the viability of each other. Absence of reliable life tables also made systematic pursuit of insurance business difficult. In order to attract business, the insurers paid rather heavy sums to their agents which increased their cost of operations.[49] A number of non-standard business practices also came to prevail. The most popular policies were endowment policies rather than whole life policies, children's endowment policies or limited payment wholelife policies.[50] The premium income of Indian insurers continued to increase apace with growing business. It went up from Rs. 11.5 crores in 1938 to Rs.47.5 crs.[51] in 1954.

Just as in the case of banking the insurance companies, especially the larger ones which accounted for the bulk of the insurance business, were controlled by the large industrial and managing agency houses.[52] Among such insurance companies mention may be made of the National Insurance, Jupiter, New Asiatic. General Assurance, Hercules, Oriental, Bharat Insurance, etc. Among other things, this was encouraging the growth of concentration as the insurers with a small base of share capital were controlling a

disproportionately large volume of national savings. In keeping with the regional concentration of, insurance business was also heavily concentrated in a few regions and neglected the rural areas.[53]

The insurance coverage in India was very limited, with only 5 million policy holders in 1955 and with per capita insurance in force of Rs.25.[54] Similarly the amount invested by insurance companies was of the order of Rs.325.75 crores only at the end of 1955. Of this, 16.4 percent only (i.e. Rs.53.17 crores) went to the corporate sector. A much larger went to central state and local government securities, amounting to almost 55 percent of the total.[55] The contribution of life insurance to agriculture and rural development was a chapter which was yet to begin. It could not even reach industrial workers in the organised sector as industrial assurance was not started.[56]

This limited development of insurance was marked by very many malpractices, inefficiencies and frequent liquidations of insurance companies, shaking public confidence and depriving policy-holders of their savings and security. Such a situation prevailed despite many attempts to regulate and control this business by legislation.

In 1912 two separate laws were enacted to provide for controlling life insurance companies and provident societies. The Indian Life Insurance Companies Act and Provident Insurance Societies Act, modelled on similar English

laws, provided for submission of returns by the insurers.[57] Many foreign companies which were not prepared to furnish such information closed down.[58] The law required the Indian insurers to make a deposit with the government, but the foreign companies were exempted from this provision. The deposits from the Indian companies were not substantial enough to prevent mushrooming of insurance companies.[59] Neither a separate agency to administer the Act was created, nor any restrictions on their investments were imposed. No measures were incorporated for investigating the affairs of unsound companies. Since no requirements concerning working capital were legislated, the new companies could derive such funds from out of premium incomes and weaken the basis for firm growth of the companies.[60] In sum, the most important feature of this legislation was to provide for the collection, consolidation and publication of information on life business in India. It could hardly secure any other objective, as no other objective was sought to be achieved through it. The withdrawal of foreign companies and departure from the practice of charging higher premia on Indian lives encouraged the growth of Indian insurers. This outcome could in a certain sense be related to the 1912 Act. The 1912 Act excluded fire marine and other insurance from the purview of the Act, presumably because these branches were dominated by foreign companies, which

did not attract regulatory action. In sum, the 1912 Act "did not have the desired effect of putting insurance business on a sound footing."[61]

The other Act passed in 1912 was the Provident Insurance Societies Act for regulating the business of such societies catering to the needs of the people of relatively modest means. These policies did not exceed Rs.500/- and yearly premium was Rs.25 or less. In 1946, the maximum insurance amount was raised to Rs.900/- and in 1950, it was further raised to Rs.1,000/-.[62] These societies were administered by the States and there was neither any requirement of making deposit with the administering agencies nor any actuarial valuation was to be made. It was only the 1963 Act which imposed the necessity of making deposits with the RBI as well as for quinquennial actuarial valuation and submission of returns to the Superintendent of Insurance.[63]

In order to strengthen the insurance law, a comprehensive draft Bill applicable to all insurers was circulated in the year 1925 for eliciting public opinion. However, meanwhile an expert committee on insurance legislation was appointed in the U.K. and it was thought that Indian legislation might await this report.[64] Pending a comprehensive law, as an interim measure an Act was enacted in 1928 to provide for collection of statistics, including those from the alien companies. It also provided for the disposal of surplus

assets in the event of liquidation of an insurance company in the same proportions amongst policy holders and shareholders as profits were distributed.[65] Many factors blocked any fresh, comprehensive legislation on insurance until 1938, when after a good deal of controversy with a Select Committee report to which every member appended a note of dissent, the Insurance Act of 1938 was passed.[66] The Act became effective from 1st July 1939.[67] It contained many "mistakes, contradictions and unmeaning provisions", necessitating two amendments in quick succession in 1939 and 1940.[68]

The new law had many significant features. Its coverage extended to provident insurance societies. Its main features were as follows:[69]

1. Provision for the appointment of a Superintendent of Insurance with wider powers was made. The first incumbent was appointed in 1938.

2. To prevent the formation of mushroom insurance companies, provision was made in the Act to increase the deposits which the companies had to keep.

3. General insurance companies also had to keep deposits.

4. The Act provided a system for licencing insurance agents and also placed a limitation on the amount of commission payable to agents. It also prohibited the payment of rebates.

5. All insurers operating in India had to obtain a certificate of registration from the superintendent of insurance and had to comply with the requirements of the Act.

6. All insurance companies had to file duly audited balance sheets, profit and loss accounts and revenue accounts with the superintendent of insurance. In the case of foreign companies, in addition to the returns that they were submitting in their country of origin, they had to provide detailed statements in keeping with the Indian Act regarding their Indian business.

7. The superintendent of insurance was also given a considerable voice in the matter of acceptance of actuarial valuations of assets and liabilities.

Under this Act, the initial deposit for life insurance business was raised from Rs.25,000 in government securities to Rs. 50000 in cash or approved securities, which was subsequently to be raised by instalments to Rs. 2 lakhs within a specified time limit.[70]

Administration of the insurance controls and regulations "soon revealed its shortcomings in the matter of licensing of agents, expenses on commission, maintenance of accounts, changes in management, interest of directors in the investment of funds of insurance companies and so on."[71]

One response to such defects was the tightening of legal provisions themselves, as reflected in as many as 11 amendments in the 1938 Insurance Act between 1939 and 1950.[72] We have seen above that during the period following the 1938 Act and periodic amendments to it, the growth of insurance business, including greater competition among Indian insurers, continued except for the immediate post-partition setback. However, the structural, functional and macro-social weaknesses of insurance also persisted. To take an instance, limits on the commission payable to primary agents left many loopholes through which the intention may be frustrated. "Indeed, several companies were already circumventing the restriction by appointing persons as Organisers, Inspectors, and Chief Agents. These are not primary agents and hence the remuneration paid to them is not subject to legal restraints."[73]

Among the amending Acts, brought in for dealing with the difficulties experienced or shortcomings observed, the 1950 and 1955 Acts were fairly comprehensive. The 1950 Act placed limits on management expenses which could be incurred by both general and life insurers. It also provided rules regarding capital structure, voting rights, maintenance of registers of beneficial owners of shares, furnishing of records of general body meetings, ending of principal agents' office after seven years, creation of The Insurance Association of India and establishment of a tariff committee.

It changed the designation of Superintendent of Insurance to Controller of Insurance.[74] The process of tightening up control over life insurance business through legislation was continued right upto 1955 when an ordinance was promulgated for streamlining the procedure for legal action against insurers. The ordinance was replaced by The Insurance (Second Amendment) Act 1955, which came into force from the first November 1955.[76]

While such legislative enactments and their administration was going on, around the beginning of 1950's the government had initiated, at their own level and quietly studies to examine the working of life insurance business "with a view to determining the measures necessary to place it on a sound footing."[76] As the then Finance Minister told the Lok Sabha, "this study was a prolonged and comprehensive one. We took up the question first for active consideration sometime in 1951. We have been at it throughout the period. Even the first examination pointed to nationalisation as the obvious step. But we did not want to take a hurried decision. During this long period, we considered every aspect of the case and every comment made and incidentally went on collecting our own experience of companies which we were administering."[77] The study was helped by the experience obtained in "the administration of the Act (which) has afforded us an opportunity of taking an overall view of the entire industry in its various ramifications."[78]

In conducting this study, the question posed related directly to the relative roles of controls vis-a-vis the ownership pattern of insurance companies. As the Finance Minister, elaborating the questions officiatly studied, put it, "what was the nature of those shortcomings (of insurance companies) and how best could they be overcome by further tightening of control? Or, alternatively, must they be regarded as inherent in the type of management found in life insurance in India?"[79] Thus, there appears to be an explicit basis for the decision to nationalise the life insurance business in the working of controls over this business and the interaction between private insurers and their public regulation.

The arguments or case for a decision in favour of nationalisation appears to have been based on a combination of three sets of factors : inefficient and undesirable functioning of private insurers; inability of indirect regulation and control on the basis of a comprehensive insurance law, particularly in view of the ingenuity at contravention and manipulation displayed by the private insurers; and last but not the least, the needs of financial resources and redirection of private investment arising from the Second Five Year Plan. The availability of an additional instrument in the form of State-owned and operated life insurance for the control of the private sector too played a part in the decision to nationalise.[80] The decision was made

against the background of rather dismal progress of life insurance in terms of coverage of less than 0.5 percent of population, with a grotesquely low figure of per capita insured sum and highly selective coverage of life insurance.

We elaborate this interpretation largely on the basis of the then Finance Minister's speech on the management take-over Bill in the Parliament and broadcast over the All-India Radio, with additional points gleaned from the Parliamentary debates.[81]

The failure of controls and regulations was reflected in many different dimensions. Even efforts at voluntary, self-management by adhering to a code of conduct framed by the insurers themselves did not succeed.[82] For one thing, the statatory limit on expenses of insurance companies could not be enforced because of the scope for manipulation, like, e.g. by appointing fictitious agents whose "main purpose seems to be to function as the channel for passing illegal rebates."[83] The expenses ratio increased from 28.9 percent in 1950 to 29.3 percent in 1954 and large insurers show no better economy than the smaller ones.[84]

Malpractices with respect to the investment of insurance funds were aplenty. Prior to 1951, the government did not even possess a picture of the investments made by insurers. Maintaining that the revealation of investments position appalled the government, the Finance Minister said,

"Loans had been given on every type of security-good, bad and indifferent. Sometimes there was no security at all - loans on shares, on agricultural lands, on barges - which indeed was a floating security - standing sugarcane crops and on libraries. With the tightening of the provision regarding loans in 1950, we thought that these tendencies would disappear. But they did not only they took to other forms."[85] High expenses ratio to premium incomes and faulty investment jeopardised the viability of many insurers.

Control over investment policy of private insurers was all the more difficult, first, because public policy was not directed to this end (as reflected in the absence of returns on investment pertfolio upto 1950), and, second, the interest of the controllers of insurance companies to utilise the funds for financing their own companies and projects, irrespective of the interests of policy holders. As the then Finance Minister said in the course of his broadcast about the management take-over of insurance companies "the tendency not infrequently has been to utilise the funds to meet the capital requirements of enterprises in which the managements are interested rather than those which are clearly in the interests of policy holders."[86] Thus like in the case of commercial banks, the phenomenon of bilateral monopoly was exerting decisive, pro-centralisation influence on the investment policy of the insurers, making it non-amenable to public control on the basis of social priorities. In

to public control on the basis of social priorities. In order to get over the difficulties placed on making loans to related companies by insurers, debntures were floated and were subscribed to by the insurance companies.[87] In fact, even gross malpractices, as instanced by the case of Bharat Insurance and some other cases pointed in the course of the Parliamentary debate over the insurance take-over bill, could not be prevented. Concerning such malpractices, Cowasji Jehanjir committee pointed out the prevalence of the practice of illegal gains made through purchase and sale of securities and falsification of statements.[88]

The evolution of public policy towards life insurance moved from the British model of "freedom and Publicity" ensuring high standards to "detailed State control" through a Draconian piece of legislation, but with little perceptible results. For instance, "with a view to preventing a life insurance company being controlled by an individual the 1950 amendment Act limited the shareholding of any one person to 5 percent of the capital of the insurance company. Despite this, the same individuals or groups continue to control the insurence companies as before. The Act was circumvented by holding shares in the names of family members, friends and employees. We indeed have very many experts in benami in this country."[89] Other instances of defeating the intention of law through the appointment

of dummies who passed on a substantial part of their salaries to those who control the emoluments to officers could not be curbed.

Thus, the experience with indirect steering of life insurance business - regarded as "an essential social service" in which "not a single policy holder should ever find his life savings in danger", showed that legislation and control "can no longer be regarded as giving us a reasonable chance of achieving our objective" and hence "it would have been difficult to justify persisting with it any longer."[90]

What were the main elements of the inefficient and socially unacceptable working of life insurance which could not be dealt with on the basis of indirect controls and necessitated state take-over of life business?

Basing ourselves on Parliamentary debates and the controversy on the question of nationalisation of life insurance, we find that a fairly formidable case existed against the private insurance companies.[91] The major shortcomings noticed in their functioning related to absence of post-sales service, very high lapse-ratio, a variety of malpractices to inflate the expenses of management for the benefit of people who control insurance business, illegal gains for the controllers through investments of dubious value or investments dubiously made or through manipulation of accounts, non or delayed payments of claims complaints about which were generally found true, high rates of premium, etc. The coverage of insurance was rather limited and

and highly skewed, among other reasons, on account of the malpractices and inefficient functioning of private insurers. As the Finance Minister suggested, "Insurance companies, by and large, were governed by short-term considerations and consequently, their activities were confined to urban areas and there too perhaps to limited categories of people."[92]

What is known as industrial assurance, covering people with small incomes, offering policies which suit their income and financial position "has not even been attempted."[93] Even the provident societies "which prefers to cater to the poorer sections of the community", "have hitherto only exploited them."[94] They numbered over 500 in the early years of the century, but dwindled to 71 on the eve of nationalisation. A majority of them are insolvent or are on the brink of insolvency; their total assets are hardly equal to one month's income of one insurance company.[95]

A clear indicator of such inefficient functioning was available in the form of frequent liquidations and forced mergers of the insurance companies, or the need to appoint administrators for eleven of them. During the decade prior to nationalisation, 25 insurance companies went into liquidation, another 25 had to transfer their business to other companies and as many as 75 were not in a position to declare any bonus at their last evaluation. Just on account of liquidations, as many as about one-fifth of the total

policy-holders were adversely affected.[96]

These socially adverse effects flowing from the functioning of insurance companies were benefitting a small group of insurers who derived control over an enormously disproportionate part of social resources on the basis of rather small capital mobilisation on their own part. As an M.P. pointed out, "Insurance magnets, with a small share capital control huge funds. For example, the paid-up capital of a company like the Oriental Life Insurance Co. is only Rs. 6 lakhs yet they have a life fund of more than Rs.100 crores."[97] With the control of large business houses over many of the larger companies and their interlocking with industrial and banking companies, the control and ownership structure of insurance companies was geared to make relentless contribution to forces of concentration and centralisation in the Indian economy.

No doubt, there were a handful of well-managed companies. As the Finance Minister recognised while introducing the LIC Bill, that there had been a few companies which conducted their affairs well and which observed good standards. But given the social service character of insurance, the record of better managed companies could not be a reason enough for permitting the larger number of malfunctioning units under private control to jeopardise the savings and security of the policy-holders.

Thus one can say that, of their own, through voluntary regulation and as a result of regulation under a comprehensive and draconian legislation, the life insurance business in India could neither do justice to its own specific range of activities, nor could relate to the rest of the economy in a manner which was conductive to the attainment of broader socio-economic objectives. Far more significant to a developing economy like that of India was the need to mobilise savings for financing the plans and, through investment of insurance funds, the need to redirect the social savings into priority areas. That is, insurance had a positive role role to discharge as a financial institutions mobilising savings and controlling private investment by planned investment of insurance funds. As the country was embarking on the Second Five Year Plan with a well-defined industrial investment strategy, the life insurance business held promising prospects of becoming a useful instrument for furthering plan objectives and programmes. Nationalisation of life insurance was considered an extension of the process for this purpose initiated by the take-over of the Imperial Bank of India.[98]

As far as the decision to nationalise life insurance was expected to do away with "far too unhealthy an enterprise shown by a number of insurance companies,"[99] it was clearly a step towards' making insurance companies' investment

and indirectly private investment in the organised sector in general, fall in line with plan programmes. However, this was not meant to restrict the role of private investment by diverting insurance funds to public sector to a greater extent than was prevalent during pre-nationalisation eta. During the course of the Parliamentary debate as well as a part of the Broadcast on life insurance nationalisation, two points were made clear that i) "it is not Government's intention to divert the available funds to the public sector to a greater degree than under present arrangements. Indeed, it will be my endeavour to see that atleast as much money as is today made available for investment in the private sector continues to be made available."[100]

ii) There was no doctrinaire or ideological dislike against private enterprise. Exclusion of general insurance was specifically cited as an evidence of this policy stance.[101] This was all the more significant because general insurance, which had greater predominance of foreign companies, was also suffering from greater malpractices and misuse of power, position and privilege.[102] Its exclusion was designed to reassure the private sector that no general ideological shift towards restructuring property relations was intended by life insurance nationalisation.

Thus nationalisation of life insurance was not meant to reduce the investible resources available to private

sector. Its purpose was to eliminate malpractices, misuse by malfeasance and to render help to private sector "more rationally, more effectively in a planned manner."[103] Thus nationalisation was only to mean denial of resources to those who cornered them fraudulently or by violating existing legal provisions. Its limited nature, without cascading effects, was clearly recognised.

As a matter of policy, particularly, with respect to the future use of the nationalisation option, one important point was officially made during the course of the debate over life insurance nationalisation. The Finance Minister argued that the "principal point about nationalisation is that the State does not have to make out a case that the private sector has failed. Nationalisation is justified on many other grounds of ideology, philosophy, and the objectives of a welfare State. So it is futile for anyone to take this stand only that unless the Government proves as in a court of law that there have been malpractices over a wide extent, by implication the State has no right to nationalisation."[104] Since control and regulation is negative in character, they can prevent "what is demonstrably bad but it cannot raise standards",[105] it was recognised that the needs of meeting positive objectives might make resort to nationalisation essential. Though the nationalisation of life insurance was not based on grounds of ideology and philosophy,

was based on the need to prevent misuse of power,position and privilege as "the most compelling reasons", it was also based on a desire to raise positively the standards of life insurance for meeting the objectives of the plans. Without bringing about a rupture with private enterprise, it was intended to make the private sector fall in line with national policies, plan and priorities in keeping with the overall logic of the mixed economy model introduced during the mid-fifties.

Notes

1. GOI, Ministry of Finance, Report-1956-57, p.37

2. "This was the first and preparatory step towards nationalisation of life insurance in this country." C.D. Deshmukh, Finance Minister, in the speech in Lok Sabha on 29th February on the Life Insurance (Emergency Provisions Bill), 1956. Quoted from Appendix XVIII to, Report of the Working Group Life Insurance Administration, Administrative Reforms Commission, New Delhi, 1968 (mimeo), p.621. Later referred to as ARC Report.

3. Ray, R.M., Life Insurance in India: Perspectives in Social Security, New Delhi, Indian Institute of Public Administration, 1982, p.19.

4. Report, 1956-57, op.cit., p.37.

5. Finance Minister's Speech, op.cit., pp.621-622. He elaborated "Transactions could be and almost certainly would have been back-dated and documents manufactured to cover even misappropriations that might have occurred till then. Indeed, complaints have reached my ears emanating from some managements that it was a pity they did not have another 24 hours in order to adjust the accounts." p.622. The Finance Minister quoted an anti-nationalisation journal as saying "---- some businessmen who have been in the habit of speculation in shares with the aid of insurance companies under their control have been caught unawares. The practice of these persons has been to buy or sell shares first without telling the brokers on whose name the contracts are to be made. If the transaction resulted in a profit it was recovered in their name. If, however, it ended in a loss, it was entered in the name of the insurance company. It would appear that at the time the Government nationalised life insurance, some of these speculators had a long position in a number of well-known counters or securities. As the Government gave no time for them to adjust the books of insurance companies, Mr. Deshmukh seems to have profited by his experience of the demonetization ordinance." pp.622-623.

6. Life Insurance Corporation of India. Reports and Accounts for the period 1st September, 1956 to 31st December 1957 p.20.

7. Finance Minister's Broadcast on All India Radio on January 19,1956, reproduced in Administrative Reforms Commission Report, op.cit. Appendix XVII. p.617. The restrictions were as follows----"it cannot invest any of the funds of the company save in accordance with instructions given by the duly authorised officers of the Government, likewise, while the payment of all claims of policy holders can be made by the existing management under its own authority, it must seek the authority of the authorised person if the payment of claim is not in accordance with the normal practice." Ibid.p.617.

8. Finance Minister's Speech., op.cit., p.638

9. Ibid. p.623.

10. Ray, op.cit., pp.19-20.

11. Ramkistayya, V.Problems Related to Compensation on Nationalisation of Industry. Unpublished Ph.D. Thesis of Osmania University. Chapter IX, p.380.

12. Govt.of India : Ministry of Law, The Life Insurance Corpn. Act, 1956, (As modified upto the 1st June, 1958) Delhi 1958. Preamble p.1.

13. Ibid. Section 7, p.4.

14. Ibid. Section 3,4,5 and 6. p.3.

15. Ibid. Section 30, p.13.

16. GOI, Ministry of Finance, Report, 1961-62, p.53.

17. The Act, op.cit, Section 16(1), p.10.

18. Ibid. The First Schedule, pp.21-26.

19. Ibid. Sections 16(2) and 17.

20. GOI, Ministry of Finance, Report, 1957-58, p.37.

21. Ramkistayya, V., op.cit., p.227, for a detailed analysis of the methods of computing compensation, see, Ibid, pp.227-240.

22. The Act, op.cit., The First Schedule.

23. Ramkistayya, V., op.cit., p.234.

24. The Act, op.cit. p.26.

25. The Act, op.cit. Section 36 (pp.16-17) and the third schedule pp.28-29.

26. GOI, Ministry of Finance, Report-1961-62, p.53.

27. Compiled from various Annual Reports of the LIC and the Annual Reports of the Ministry of Finance.

28. The Indian Insurance Year Book, 1956. Later referred to as IIYB.

29. GOI, Ministry of Finance, Report, 1957-58, p.36.

30. IIYB, 1956, op.cit. Shareholders' capital was Rs.1.64 crores on 31st August 1956. Ray, op.cit., p.220

31. Ray, R.M. op.cit, as on 31/8/56 for 243 insurers.

32. Ray, R.M., op.cit, p.20

33. ARC, Report op.cit., pp.7-8, Bajpai, O.P., Elements of Life Insurance, Kitab Mahal, Allahabad, 1959, pp.164-165.

34. "Modern life insurance was introduced in India by certain English companies and it is generally stated that this happened in the early parts of the second half of the 19th century." Presidential speech by Col.J.B. Singh at the opening of a branch of the oriental at Ranchi on 25 November 1935. Quoted from Administrative Reforms Commission, Working Group on Life Insurance Administrative. Further referred to as ARC Report. op.cit. p.600.

35. Bajpai, O.P., Elements of Life Insurance, op.cit.

36. "The intense Swadeshi movement arising out of a realisation of the enormous grip which foreign interests have on the economic sphere of Indian trade, commerce and industry gave a fillip to the development of Indian insurance companies. It not only enabled the existing Indian companies to get a larger share of the business available, but also resulted in the floation of several new companies, some of which are today among the largest and soundest Indian companies." Ray, R.M. Life Insurance in India, Allied, Bombay, 1941, p.27.

37. Bajpai, op., op.cit., p.167.

38. Ray, op.cit., Chapter II and ARC, op.cit., pp.600-601.

39. Estimates Committee (1960-61), Second Lok Sabha, 134th Report on LIC, p.1. Also ARC Report op.cit. p.602.

40. Bajpai, O.P. op.cit., p.168.

41. Ray, op.cit. p.239.

42. Ibid. pp.6-7.

43. See, Ray (1941), op.cit., p.31, pp.33-35 for a list of companies which were amalgamated with others. Its Appendix X gives the list of companies which went into liquidation.

44. Ray, (1941), op.cit., pp.31-48, Bajpai, op.cit., Chapter 16 and ARC Report, op.cit. Appendix XVI.

45. ARC Report, op.cit., p.603.

46. Ray (1941), op.cit. p.44.

47. Ibid. "Usually these (English)companies charged 10 percent over the European life rates for Indian lives. One company charged the assured Rs.25 extra per Rs.1,000 sum assured at the European life rates, and allowed this extra to remain as a debt on the policy at 5 percent interest until the assured reached his expectation of life according to a table of their own." P.21.

48. ARC Report, op.cit. "So severe was the competition offered by Indian insurers to their foreign counterparts that the latter found it difficult to withstand it and had to lose their hold by about 40 percent." P.607. Also p.60.

49. Ibid. pp.45-46 & p.23.

50. Ibid. p.603, Also, Ray, (1941), op.cit. P.

51. Lok Sabha Debates.

52.

53. For the State-Wise position of life insurance business, see Graph I.

The State-Wise distribution of insurers registered

52. See, Nigam, Raj.K, "Inter-looking of Directorships between Banking and Other Companies" Company News and Notes, Oct. 1, 1988. Also, GOI, Report of the Monopolies Inquiry Commission, Vo. 1, Delhi, 1966. Lok Sabha Debates, op.cit.

under the Insurance Act 1938 shows that out of 145 such insurers, as on 31st August, 1956, Bombay had 64, West Bengal 29, Madras 21 and Delhi 15 and the combined total of the rest of the States was 16 only. IIYB, 1956.

54. Lok Sabha Debates.

55. IIYB, 1955.

56. See note No.93.

57. Ray (1941), op.cit., pp.239-240. Also, RBI, Banking and Monetary Statistics of India, Bombay, 1954, Section II on Insurance companies. pp.916-917.

58. Ray (1941), op.cit. p.35.

59. Banking and Monetary Statistics, op.cit. "The Act required every company engaged in life insurance business to make with government an initial deposit of Rs.25,000 or an amount equal to one third of the income derived from life assurance business as shown in the revenue account for the last financial year, whichever is greater; this sum should be raised to Rs.2 lakhs in the manner prescribed in the Act. (Section 4), p.916 Ray (1941), op.cit. said, "Thus company promoters who could scrape to get together a sum of about Rs.25,000 towards first deposit could float a company. "P.241.

60. Ray, (1941), op.cit. pp.240-241.

61. ARC Report, op.cit., p.917.

62. Idem.

63. Idem.

64. Ray (1941), op.cit., p.243.

65. Idem.

66. Ibid. p.244.

67. ARC Report, op.cit., p.606.

68. Ray, op.cit., pp.244-247.

69. Ibid. pp.247-253.

70. RBI, Banking and Monetary Statistics, op.cit., p.916.

71. Idem.

72. ABC Report, op.cit. , p.606.

73. Ray, op.cit., p.263.

74. The Act.

75. Ibid.

76. Speech of the Finance Minister in the Lok Sabha on the Life Insurance (EP) Bill, 1956, as reported in ARC report, op.cit. p.626.

77. Idem.

78. Ibid. p.625. Elaborating on the questions examined, the Finance Minister said. "The question we posed to ourselves were : was life insurance functioining in India in the most efficient manner possible so as to attract the savings of the average man to the maximum extent ? If not, what was it that prevented it from doing so " ? p. 626.

79. Idem. Emphasis added.

80. "The insurance companies hold considerable shares in many industrial undertakings. So much so that through nationalisation, government will be able to establishe control over sizeabld section of the private sector ". Sadhan Gupta in Lok Sabha Debates, 1956, Vo. 5, Part II.

81. Hence we do not give references details for each specific point.

82. Finance Ministers speech in the Lok Sabha op.cit.p.628.

83. Idem.

84. Ashok Mehta in Lok Sabha debates, op.cit. p.

85. Ibid. p. 629.

86. ARC Report, op.cit. Appemdix XVIII , p.616.

87. Finance Minister's speech, op.cit. p.634.

88. Lok Sabha Debates. op.cit. Ashok Mehta's Speech.

89. Ibid. p.633.

90. Ibid. p.635.

91. See, Bajpai, O.P. op.cit., pp.183-188.

92. Finance Minister's Speech, op.cit., pp.631-632.

93. Ibid. p.631. Its was pointed out that this class of business forms 40 percent of the life business in the U.K. and 35 percent in Germany, Idem.

94. Idem.

95. Idem.

96. Ibid. pp.629-630 and 635.

97. Parliamentary Debates, op.cit.

98. "With a Second Plan in the offing involving an accelerated rate of investment and development, the deeping and widening of all possible channels of public savings has become more than ever necessary. Of this process the nationalisation of insurance is a vital part." Finance Minister's Broadcast, op.cit. p.612.

99. Ibid. p.615. It was further clarified that the misuse of power position and privilege that we have reason to believe under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalise life insurance. Ibid.p.619.

100. Ibid. pp.618-619.

101. "Were that so (doctrinaire dislike of private enterprise), we would not have left alone the other big sector, the general insurance. "Ibid. p.619.

102. "Malpractices in general insurance sector are more rampant than the life insurance sector. If general insurance had been nationalised, we would have got a lot of investible funds. Many of the foreign concerns would have been eliminated by taking over general insurance. There are 61 Indian general insurance companies as against 88 foreign companies." Sadhan Gupta in the course of Lok Sabha Debate. Op.cit.

103. Lok Sabha Debates, op.cit.

104. Lok Sabha Debates, Finance Minister's speech on 19th March,1956 on the Life Insurance Corporation Bill, 1956. reproduced in ARC Report, op.cit., p.643.

105. Finance Minister's speech on the Life Insurance (Emergency Prevision) Act, 1956, op.cit. p.632.

NATIONALISATION OF SMALLER BANKS.

(A PART OF THE REPORT ON THE ICSSR PROJECT "NATIONALISATION IN INDIA'S NON -AGRICULTURAL SECTOR SINCE 1947- A STUDY IN POLICY OPTIONS.")

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NATIONALISATION OF SMALLER BANKS

Except for the nationalisation of the State-associated banks in terms of the State Bank of India (Subsidiary Banks) Act, 1959, and sudden take-over of six commercial banks in 1980 by an ordinances, the take-over of many smaller banks is a relatively little known phenomenon. These other banks were taken-over through mergers and amalgamations in terms of some enabling provisions in the Banking Regulation Act, 1949, State Bank of India Act 1955 and the State Bank of India (Subsidiary Banks) Act, 1959.[1] Since the nationalisation of the smaller banks followed two distinct patterns, it may be convenient to discuss them separately. To begin with we take the case of the State-associated banks and subsequently of the other banks. In the last section, we take up the case of nationalisation of six relatively small banks in 1980.

I

The recommendation of the Committee of Direction, All India Rural Credit Survey to constitute the SBI with the nationalisation of the IBI and Statutory amalgamation of ten State-associated banks, alongwith that of some minor State-associated banks[2] was only partially acted upon. While the SBI was constituted on 1st July 1959 with the transfer to it of the undertaking of the IBI,[3] the other banks were not, for the time being, merged with the SBI. However,

the question of eventual linking up of these banks with the SBI was not closed and the statutory branch expansion programme of the SBI excluded Part B States which were the principal areas of operation of the major State-associated banks (SABs),[4] suggesting that this question was related to the eventual status of the SABs.

The SABs, started in the pre-independence period operated in the princely states and the princely states had varying degrees of interest in them.[5] With the accession of these states to the Indian union, the successor State Governments came to acquire interest in these banks. The extent of state share-holding in these banks, as on December 31, 1954 is shown in the table 1.[6]

It can be seen that while two banks, namely, the State Bank of Saurashtra and the Bank of Patiala were fully State-government's owned banks, two banks, namely the Bank of Rajasthan and the Bank of Mysore were fully private banks without any shareholding by the State governments. Hyderabad State Bank had 51 percent State shareholding. The rest of the five banks had a majority private shareholding. Thus a total of seven banks were essentially private banks, two were already exclusively state banks and one had a majority participation by the State government. The State Bank of India (Subsidiary Banks) Act, 1959 (No.38 of 1959) constituted six new banks.[7] The undertakings of these SABs were transferred to those new banks and their shares were

Table 2

Compensation Paid for the Subsidiary Banks of The SBI

(Rs. Lakh)

S.No.	Name of the Bank taken-over	Consideration/ compensation at the time of take-over
1.	State Bank of Bikaner	Rs. 72.50
2.	State Bank of Jaipur	Rs. 40.00
3.	State Bank of Indore	Rs. 60.33
4.	State Bank of Mysore	Rs. 180.00
5.	State Bank of Travancore	Rs. 136.60
	Total	Rs. 489.43

Table No.1: State Shareholding in State Associated Banks Prior To Nationalisation.

Name of Bank	Percentage extent of State shareholding as on 31.12.1954.
1. The Hyderabad State Bank	51%
2. The State Bank of Saurashtra	100%
3. The Bank of Patiala	100%
4. The Bank of Bikaner Ltd.	5.26%
5. The Bank of Jaipur Ltd.	25%
6. The Bank of Rajasthan Ltd.	Nil
7. The Bank of Indore Ltd.	34.6%
8. The Bank of Baroda Ltd.	16.4% *
9. The Bank of Mysore Ltd.	Nil
10. The Travancore Bank Ltd.	32.5%

*(Government of Bombay)

Sources: Unpublished Study on the Relationship of Associated Banks with the SBI by the Associated Banks Deptt. of the SBI.

transferred to the SBI, which was to hold, atleast 55 percent of their shares and have a commanding say in their management.[8] That is to say instead of amalgamating the six banks with the SBI, they were made subsidiaries of the SBI.

After a period of nearly five years after the setting up of the SBI, a decision was taken on the original recommendation of the All India Rural Credit Survey Report. Though these banks were permitted to continue as independent entities, their private ownership and management was replaced by control and majority ownership by the SBI. As we see below, the Act amounted to nationalisation of five banks with the exclusion of two of the seven banks viz, the Bank of Rajasthan and Bank of Baroda from the purview of nationalisation, All the banks, except the State Bank of Mysore and State Bank of Travancore were to have authorised capital of Rs. one crore; while for both the latter banks authorised capital was fixed at Rs. Two Crores.[9] All the issued capital of the new banks was allotted to the SBI.[10]

The shares of the subsidiaries banks were "freely transferable", though no single private shareholding was to exceed 200 shares and the total of such shares was not to exceed 45 percent of the total shareholding.[11] In order to maintain SBI's control over the management of the subsidiary banks, none of the shareholders other than the SBI were entitled to exercise voting rights in excess of five percent of the issued capital.[12]

The compensation provisions for converting these partially State government owned banks into a subsidiary of a State-owned bank stipulated payment of compensation to every registered shareholder (whether a person or a State government) equal to the value of the specified assets on a specific day less the total amount of liabilities. While the principle of compensation adopted in this case amounted to payment of the full actual value of the assets computed on the basis of the specifications laid down in a schedule,[13] it was different from the average market value of shares principle adopted in the case of nationalisation of the IBI and the RBI. The actual compensation amount paid is as indicated in the Table II.

The total amount of compensation for the five banks amounted to about Rs.4.[illegible] crores. The shareholders had the option of taking shares in the capital of the new banks in lieu of compensation.

As One Can Observe from the Table 3, given below, by this Act, deposits of the order Subsidiary Banks of the SBI.

Subsidiary Banks of the SBI
(As on 31st Dec. 1959) (Rs. Crores)

S.No.	Name of the Bank	PUC	Revenues	Deposits	Advances	Investments	No. of offices.
1.	State Bank of Jaipur	0.500	0.755	9.97	4.41	5.29	40
2.	State Bank of Indore	0.153	0.290	9.04	5.49	3.21	18
3.	State Bank of Bikaner	0.500	0.270	13.16	7.96	6.07	54
4.	State Bank of Travancore	1.00	0.297	6.97	3.56	3.24	20
5.	State Bank of Mysore	0.5	1.00	19.57	11.47	8.60	43
	Total	2.653	2.112	58.71	32.89	26.41	175

Source: Report of the Central Board of Directors, the State Bank of India, 1959, p.20.

of Rs. 58.71 crores and advances worth Rs. 32.89 were brought under direct public control. The paid up capital of these banks was Rs. 2.65 crores, against the compensation of Rs.489 paid to them, i.e. the compensation amount was 184.5 percent of the PUC. The compensation amount was over 102 percent of the networth of these banking companies. The take-over of these banks could not make any appreciable difference to the pattern of banking in the country, because all these SABs taken together accounted for a rather small

fraction of total banking business. In the year 1959, the deposits, advances and investments of these five banks were only a fractionally higher than 3 percent of the total for all the banks, scheduled and non-scheduled taken together.

Despite State-governments shareholdings in these banks prior to 1955, we consider the subsidiarisation of these banks equivalent to nationalisation because prior to their take-over, these banks could not have been considered public owing to minority shareholding by the State government. The purpose of the subsidiaries law was to bring these banks under a unified public control without disturbing their separate existence. It is on the basis of this criterion that we did not include the Hyderabad Bank, under the category of the nationalised banks as the State government held 51 percent of its shares in 1954.[14] In order to provide for the devolution on one single authority of the functions of the State government of Hyderabad in relation to the Hyderabad State Bank and generally to secure more effective supervision over the affairs of the bank, particularly in view of the contemplated re-organisation of the Hyderabad State, the ownership of the Bank was transferred to the RBI in terms of an ordinance issued on September 26, 1956; the ordinance was subsequently replaced by the State Bank of Hyderabad Act, 1956.[15] The subsidiaries Act transferred the State Bank of Hyderabad and the State Bank of Saurashtra

to the control of the SBI. These two banks and the State Bank of Patiala cannot be included in the category of nationalised banks as these banks were already under State control. Through the subsidiaries Act the organisational and management set-up was changed as these banks were brought into a subsidiary relationship with the SBI. But it did not involve change in ownership.

Though the SBI (subsidiary banks) Act nationalised five banks, it had an enabling provision (Section 38) empowering the subsidiary banks with the approval of the SBI and under instruction from the RBI-SBI to "enter into negotiations for acquiring the business, including the assets and liabilities of any other banking institution."[16] As we shall see, many banks were compulsarily or voluntarily acquired under this section.

II

The important issue with respect to the take-over of these five banks, exclusion of two similarly placed banks from the purview of nationalisation and subsidiarisation of three other SABs was the manner in which the recommendation of the All India Rural Credit Survey Report was changed and a new subsidiary model was evolved.

After the constitution of the SBI in 1955 when a decision on the compulsory amalgamation of the SABs was

the government view was that such "an irrevocable merger", which fails to offer the advantages given by the scheme of subsidiarisation, "may add substantially to the cost of maintaining even the existing banking facilities in the areas concerned."[21] Merger of these banks with the SBI may "instead of solving any of our problems, may only increase them, by adding a fresh and uncertain burden to those which the SBI has already been called upon to bear."[22]

Thus, it appears that one of the issues which mattered in the decision against integration of these banks with the SBI was the expected increase in the cost of banking facilities. It is difficult to visualise how any costs other than wage-bill might go up and add a fresh and uncertain burden to the one already imposed by the SBI. One may possibly think of the cost of opening new branches which may not be remunerative. But since the SABs were also to participate in the branch expansion programme in their respective areas this cost could not have been referred to. In any case, the reference was to the cost of maintaining existing banking facilities, which wakes this interpretation [illegible] of additional cost of branch expansion unlikely. On the contrary, wage disputes of the SBI were referred to the National Industrial Tribunal (Bank Disputes) in March 1960[23]. Thus, the amalgamation of all these banks in order to create one large, integrated bank with all-India

postponed, the question was referred to an ad-hoc committee of the RBI in 1957.[17] The committee recommended that, except for the Bank of Baroda, the rest of the SABs may be converted into subsidiaries of the SBI and thus "while securing for the country one integrated, centralised organisation for management of treasury arrangements and currency chests, would retain all or at any rate, most of the advantages that were available then to the people of the areas where these banks were operating."[18] The committee also had the objective of bringing about a transfer of control over the SABs to the central government or to an institution controlled by it.[19] This consideration has its obvious significance from the point of view of considering subsidiarisation of these banks as nationalisation.

It is significant that as far as the organisational form to be taken by the restructuring of SABs was concerned, the recommendation of amalgamation of these banks was changed into that of their conversion into separate but subsidiary banks. The change was recommended by an ad-hoc committee of the RBI in which two members were the same as in the committee of Direction All-India Rural Credit Survey which suggested amalgamation. It was pointed out by the Minister for Revenue and Civil Expenditure that the Associations and Unions of the employees of the SAB's, wanted a complete merger with the SBI.[20] On the contrary,

There were certain other aspects concerning the special method used in the nationalisation of the SABs. It seems likely that the subsidiaries model was adopted, partly in order to avoid the expected hike in the wage-bill consequent upon the homogenisation of the working conditions in the SABs. There is another important aspect. Of the ten banks recommended by the Rural Credit Survey Report for statutory amalgamation, the SBI (Subsidiary Banks) Act, 1959, excluded two banks, viz., the Bank of Baroda and the Bank of Rajasthan.

This decision seemed to have been based on the consideration that the take-overs were likely to cause apprehensions in the private sector, particularly as it came in the wake of the Avadi resolution on the socialistic pattern of society. As the Governor of the RBI said in July 1960, "the SBI has now taken-over various State associated banks as subsidiaries; this has caused hardly a ripple because legislation for the purpose was passed with the consent of the majority of the shareholders concerned. If I may let you into a bit of history, the original decision was to adopt the measure anyhow; subsequently, Government, very wisely if I may say so, decided that an attempt should be made to get the consent of the parties concerned and it is interesting to observe that in most cases this consent was readily forthcoming."[28] Since the consent could not be obtained in two cases through "negotiated settlement

acceptable in a friendly way"[29] (that is in the cases of Bank of Baroda and Bank of Rajasthan)[30], they were excluded from nationalisation by means of subsidiarisation.

Thus it is claimed that this decision and the method of arriving at it, apart from giving claimed organisational advantages, was conducive "also to the goodwill of the of the private shareholders who, except in the case of three fully state-owned Banks, had majority shareholdings."[31] Thus, care seemed to have been taken that any nationalisation which becomes essential either owing to some broader, general factor (as in the present case, mainly related to the need to provide banking infrastructure all over the country) or owing to some specific factors, it should be perceived by the private sector which is made to part with its productive enterprises and property, as an inevitable act not calculated to hurt them and conducive to their own collective, long-term interests.

This was essential in terms of the requirements of an appropriate investment climate for attracting private industrial investment in very large area left for private enterprise by the Industrial Policy Resolution, 1956, as an integral component of the mixed economy model it prescribed.[32] That the misapprehensions caused by acts of nationalisation are not unimportant can be inferred from the viewx expressed by the RBI's Shroff Committee (1954) on finance for the

private corporate sector.[33] Thus the exclusion of the Bank of Baroda (which later on grew into one of the top banks in India) and the Bank of Rajasthan, in view of the opinion of their existing managements and shareholders could be considered a significant qualification to the take-over of five willing banks. Its impact on business sentiment concerning the character and ideological and class orientation of the regime are unlikely to go amiss, particularly owing to the organisational form of subsidiarisation which seemed to have been accepted partly with a view to keep the wage-bill and trade union demands under control. In any case, the move did provide the State with an important instrument for providing integrated banking infrastructure in Part B (i.e. former princely) States - an essential step for generating an integrated all-India market and financial infrastructure.

III

The other smaller banks were brought under State ownership and control over the period 1958-1968 under the enabling provisions of three laws relating to banks in India. A profile of 27 smaller banks which were taken over under these laws until 1969 (except one bank taken-over 1971) with a paid-up capital of Rs.129.73 lakhs, deposits of about Rs.2221.0 lakhs investments of Rs.1250.29 and 230 banks offices is presented in Tables IV and V. The laws under

which these take-overs were affected are as follows:

i. Section 35 of the State Bank of India Act, 1955;

ii. Section 38 of the State Bank of India (Subsidiary Banks) Act, 1955.

iii. Section 45 of the Banking Regulation Act, 1949.[34]

The State Bank of India Act, 1955 provides that the SBI "with the sanction of the Central Government, and shall, if so directed by the Central Government in consultation with the Reserve Bank, enter into negotiations for acquiring the business, including the assets and liabilities of any banking institution."[35] It was a provision for a negotiated take-over, the initiative for which may come either from the SBI or the Central Government in consultation with the RBI. Apparently, the SBI would initiate such a move in terms of its charter, i.e. provision of banking infrastructure and rural credit,[36] while the central government would be expected to issue directives in terms of general monetary policy or in the interest of depositors, as were the operative principles in these matters.[37]

The Section under reference not only provided for negotiated terms of acquisition, but also for the payment of "consideration" by mutual agreement either in cash or in terms of allotment of shares in the capital of the SBI.[38] This Section was the earliest to be activised for merging smaller banks with the SBI, beginning from 1958. Total number of banks so merged came to 7 (see Table VI)

many of these banks were minor state associated banks like Mayurbhanj State Bank, Bher State Bank. Cooch Behar State Bank and Manipur State Bank were also transferred to the SBI under section 35 of the SBI Act. However, since these banks already had 98.3 and 95.4 percent shareholding by the State in 1954 their merger with the SBI was not an act of nationalisation, but a reorganisation of public property.[39] Similarly, the Bank of Aundh listed by the SCOPE as already forming part of the Public Sector in 1947, hence its merger with the SBI in 1963 was only a reorganisation of public productive property.[39a] Given the legacy of the Imperial Bank and continuing special relationship of the SBI with the Government, it was understandable that other such minor banks are merged with the SBI for creating an effective all-India bank for the purpose. Under this provision, three very small banks, with paid-up capital of less than Rupees one lakh each (Table V) involving similar amounts in compensation (Table IV) and deposits and advances of less than Rs. two lakhs each were also merged with the SBI (Table V).

It may be suggested that the presence of an element of negotiations and mutual agreement about the terms of merger reduce the element of 'nationalisation' owing to the absence of a certain degree of compulsion in fixation of terms of acquisition by public agencies concerned.

Since the initiative for a merger comes from public agencies and it brings about a transfer of ownership and control of economic assets and activities to public, non-private agencies, there cannot be any sustainable objections to considering mergers under section 35 of the SBI Act as nationalisation. In order to facilitate "acquisition through negotiations", the Act was amended in 1959 to simplify the procedure.[40] Terms of a nationalisation cannot be decisive in deciding whether a transfer of private property to public ownership and subsequent operations under public management may be treated as nationalisation. However, it certainly affects the socio-economic content and character of an act of nationalisation.

Since the subsidiary banks of the SBI were to perform in their respective regions functions similar to the SBI, the State Bank of India (subsidiary banks) Act contained similar enabling provisions for a negotiated acquisition of banking institutions under Section 38.[41]

Procedurally, this Section provided for a written order of sanction from the Central Government for proposed acquisitions under this Section.[42] Another significant departure in this section in contrast to the 1955 SBI Act was concerning the rights of the employees of the acquired bank. It was stipulated that on accepting continuation

of employment in the acquired or transferee bank, the employees shall for feit all their outstanding legal claims for compensation under various laws or mutual agreements.[43] Thus while both the assets and liabilities of the banking institution were acquired, the compensation claims of the employees were not accepted as operative.

Under this provision, the subsidiary banks acquired eight banks over the period 1962-1969.(Table IV) The State Bank of Travancore made the maximum use of this section.

The Banking Regulation Act, 1949, did not at its initial stage, contain any provision for compulsory merger or amalgamation of banking institutions by other banks or public sector banks. It means the method of control and regulation of banking companies stipulated in it did not include any method of restructuring banking business except through voluntary mergers in terms of Section 44A,[44] much less through an expansion of public sector banking. This situation continued until 1960 when the Banking companies (Second Amendment) Act provided for compulsory amalgamation "with any well-managed institution" and not necessarily with a public sector one.[45] However, since this provision permitted amalgamation with either the SBI or its subsidiary banks, and postulated "the transfer to the transferee bank of the business, properties, assets and liabilities of the banking company on such terms and conditions as may be

specified in the scheme,"[46] this section may well be considered an enabling provision for nationalisation. In fact, since it is compulsory amalgamation and on terms contained in the scheme prepared by public agencies, there can be little doubt in treating amalgamations under this provision as nationalisation when the transferee bank happens to be a public sector bank.

Under Section 45 of the Banking Regulation Act, eleven banks were amalgamated with the SBI or its subsidiaries. Prior to such a compulsory amalgamation, grant of moratorium to the bank concerned was a necessary preliminary.[47] This was done to maintain the continuity of business and to conserve the assets of the banks in the interest of the depositors.[48]

Compensation was paid for these take-overs in a prescribed manner by the transferee banks, i.e., either the SBI or its subsidiaries. We could obtain information on this issue from the concerned banks (as this information has not been published otherwise) only for 20 banks.[49] (See Table IV). It can be seen from Tables IV and V that in four cases, there is a very close correspondence between the compensation amount and paid-up capital or networth. In two cases, viz., Raikut Industrial Bank and Kamla Bank (two very small banks with paid-up capital of less than a lakh of Rupees), the compensation amount of Rs.15,000 and Rs.10,000 is very much lower than their networth. In both

cases, the banks were making losses; quite high in view of the size of the Bank in the former case. For some of banks the compensation amount was more or less comparable to the owned funds of the banks; generally somewhat loss than the capital base. In two cases, no compensation was paid as the liabilities exceeded recoverable assets. In two other cases also compensation was not paid, while in some others the procedure for compensation payment remains incomplete. In some other cases, compensation was much lower than the capital base, owing to either accumulated losses or sizeable liabilities. We have seen that for the IBI and five State-Associated banks, the compensation amount was quite liberal as compared to the amount paid to the smaller banks merged or amalgamated with public sector banks. We learnt from official quarters that the question of payment of compensation to the shareholders arose only after making payment to the depositors, etc. Hence in some cases, the question of payment to shareholders did not arise, implying that their 50
deposits and liabilities exceeded their recoverable assets.

IV

Why were these 27 banks merged or amalgamated with public sector banks, thus leading to "consolidation of the banking structure" and to enlargement of public sector banking? Since the laws provided for merger or amalgamation

with any well-managed institution, it becomes pertinent to enquire why the choice in favour of public banks was made, bringing about not only strengthening of the structure of banking, but also effecting nationalisation. It would be difficult to postulate that the implications of merger/amalgamation with public sector banks were not at all understood in terms of extension of public ownership and control in banking. Infact, specific legal provisions were made in order to bring about the amalgamation of the small "sub-standard and non-viable bands" with the SBI and its subsidiances (i.e. the existing nucleus of public sector banking) by issuing the Banking Companies (Amendment) Ordinance, 1961 which was later replaced by an Act. This was considered necessary because prior to the amendment, such amalgamation was possible only with another banking company."[51] However, such an understanding cannot be totally ruled out because sometimes, the "take-overs" or mergers and amalgamations under these provisions are not considered "nationalisation" in certain official circles.[52]

It may well be that these decisions were not primarily nationalisation decisions based on an explicit motivation of extension of public ownership and doing away with a certain area or amount of private property. The extension of public ownership and control came about as a corollary. But given the cannotation of the term

nationalisation, these changes do amount to nationalisation. Since nationalisation occurred as a by-product, there may not have existed any consciously articulated case in the official circles for the decision. But since there existed a choice between merger and amalgamation either with a private or a public bank and the former were chosen in a number of cases, it would be difficult to postulate that the decision was made in a state of somnambulance.

There was a provision of voluntary merger under Section 44A of the Banking Regulation Act, 1949, but none of the 20 mergers affected under it involved movement of banks from private to public sector. (See Table VII) This can be taken to indicate that mergers involved transfer to public ownership only on a non-voluntary basis. If the total of 208 mergers amalgamations, etc. over the period 1960-1969 (prior to nationalisation of 14 major banks), 64 were carried out under legal provisions which permitted incidental nationalisation; but only in 27 out of 64 such cases (i.e. in about [illegible]3 percent cases), such a transfer to public ownership was brought about; thus a majority of cases involved consolidation and strengthening, in terms of size, of private sector banks by elimination of smaller and weaker private banks.

The issue with which we have to deal in this connection is not that of reduction in the number of banks, among other things, by means of mergers and amalgamation

and the growth of the larger banks. The IRB and the Government were following during this period a policy of elimination of sub-standard and non-viable banking units through a process of amalgamation and mergers "as" the existence of a number of weak units with numerous small depositors spread all over the country placed the banking system in a vulnerable position and the refusal of licences to so many would have led to undesirable repercussions on the banking system[53]. However, from our point of view the issue is that of discussing the factors which induced merger with public sector banks, i.e. the SBI and its associate banks. That the banks which were so absorbed were small, financially weak and unbalanced, with very low amount and rate of returns can be seen from Table V. In many cases, either the advances-deposit ratio is too low (ranging between 15 to 37 percent in seven cases) or shows comparative over-expansion of advances (over 100 percent advance-deposit ratio in three cases). In many case, in which the advances - deposit ratio is around the level obtaining for the sector as a whole, one finds that such banks were making losses (e.g. for Travancore Forward Bank, Kottayam Oriental Bank, Bank of Dewas, etc.).

One reason why some of these banks were merged with the SBI and its associated banks obviously related to the fact that they were minor State-associated banks, like

the ones covered by the SBI (Subsidiary Banks) Act 1959. Such banks were to be merged with the SBI in terms of the All India Rural Credit Survey Report - the recommendation to which the SBI owes its existence. These banks were too small to be run independently as subsidiaries of the SBI and provide organisational or wage-bill advantages like the ones claimed from the subsidiarisation of some banks.

It is possible to postulate that the other banks were merged with the SBI and its subsidiary banks for any one or more of the reasons we advance in the following. The SBI and its subsidiaries wanted and were statutorily required to open branches in unbanked areas in order to provide banking infrastructure undaunted by prospects of financial losses, owing to statutory cushion provided for the purpose. These smaller banks already had a presence in many of these areas which could be strengthened by their merger/amalgamation with the SBI or its subsidiaries.

Then, it is not unlikely that there were no private banks willing to absorb those small and weak banks and in this manner making the public sector banks go in for them; a step analogous to the logic of rehabilitation of sick industrial units by their nationalisation in the form of their . . . merger with other going concerns in the public sector.

Most of these merged banks were concentrated in the

Southern States of Kerala and Madras.[54] Out of twelve such such southern banks, two were located in Karnatak (merged with the State Bank of Mysore), one in Tamilnady (merged with the SBI) and the rest in Kerala which were merged with the State Bank of Travancore. Some of these States, particularly Kerala, witnessed a good number of bank failures which had to be investigated by Commission.[55] Under such an experience with private banks mushrooming in the State, merger of the weaker banks with a public sector bank might have been considered useful from the point of view of inspiring confidence of the public in the soundness and viability of the banking system.

In any case, the weightage of public sector banking in the overall banking structure, even after these 27 banks were merged with the SBI and its subsidiaries, did not become significant. That means at the overall level, the significance of public sector banks did not increase in any marked manner as a result of the nationalisation through mergers of these 27 banks. This can be seen from the following facts:

Share of Public Sector Banks as on December 29, 1968

	Percent Share
Deposits	29
Credit	30
Investment	31

Source: Annual Report of the State Bank of India, 1968, p.32

Take-over of these banks, then did not bring about a marked change in the pattern of ownership and control of banks in India. There is little wonder, therefore, that the nationalisation of these 27 banks over the decade 1958-68 has generally remained un-noticed. Even in the midst of the controversy over the demand for nationalisation of major commercial banks, the fact that owing to structural weaknesses in Indian banking, the State had to take-over 27 smaller banks, was hardly ever pointed out. That existing state intervention in banking upto June 1969 already had to include nationalisation as a policy instrument on a none too insignificant scale, at least in terms of number of banks, and that legal provisions empowering the State to take over private banks had found place on the Statute books largely went unnoticed.

However, banking regulations which were codified and systematised in the fifties in the forms of the Banking Regulation Act, 1949 (along with many subsequent amendments), proceeded mainly in terms of licensing, information gathering and monitoring, placing restrictions concerning assets, non-banking activities, reserve funds, relationship with the RBI, restrictions on loans and advances, controls on capital structure, audit, inspection, control over management, suspension of business, mergers, etc.[56]

This policy was implemented by the RBI through issuance of directives from time to time. In this complex exercise, change of ownership and control did not figure as an instrument until 1960 when, as seen earlier, compulsory amalgamation provisions, including with the SBI and its subsidiaries were introduced. In fact, the major objectives sought to be served by these controls related to ensuring sound banking practices essential for protecting the interests of deposition, particularly in the light of existence of many small banks and the phenomenon of bank failures causing panic among depositors.[57]

This was supplemented by the need to control credit creation by the commercial banks according to national monetary policy through various kinds of conventional credit controls.[58] The take-over of the SBI and its five subsidiaries were adhoc, specific measures meant to deal with the problems arising from the special status of the IBI and the State associated banks and the need to make use of them for creating banking infrastructure and for filling credit gaps. In the process of implementing these controls to meet the objectives accepted then, there does not seem to have cropped up any need to strengthen these instruments by taking recourse to nationalisation. Nor there appear to have emerged any new and more ambitious objectives necessitating adoption of nationalisation. The

phenomenon of bank failures was brought under control and it was attempted to make credit creation to follow the dictates of budgetary and planning policies and the needs of macro-economic management. Thus our conclusion that the smaller banks were merged with the public sector banks in an incidental manner based on a specific set of factors without a well-articulated general policy-design concerning private or public ownership seem to be corroborated by an overall assessment of banking regulations and the monetary policy of the country. It may probably be on account of rather limited significance, hardly even perceived by those who were concerned with the performance of Indian banking, that the question of nationalisation of commercial banking remained a controversial live issue throughout the sixties.

V

After the nationalisation of 14 major banks in 1969, banks with deposits of less than Rs.50 crores were left in private hands. After over a decade, in 1980 six more commercial banks were taken over by the Government through an ordinance which was replaced by the Banking Companies (Acquisition and Transfer of undertakings) Act, 1980, which came into force from 15th April, 1980. The six banks were: The Andhra Bank Ltd., Corporation Bank Ltd; The New Bank of India Ltd; the Oriental Bank of Commerce
59
Ltd; The Punjab & Sink Banks Ltd; Vijaya Bank Ltd.

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The six banks were: The Andhra Bank Ltd., Corporation Bank Ltd; The New Bank of India Ltd; the Oriental Bank of Commerce Ltd; The Punjab & Sink Banks Ltd; Vijaya Bank Ltd.[59]

These banks were selected on the basis of a cut-off point of depositis worth Rs.200 crores and above as on 14th March 1980.[60] Total bank deposits thus transferred from private to public control exceeded Rs.2,000 crores.[61] Other facts about the financial and operational position of these banks are as follows:

(Rs. Crores)

S.No.	Name of the Bank	Paid up Capital	Net Worth	Advances	Compensation (amount receiv
1.	Andhra Bank	1.00	5.0015	270.1086	6.10
2.	Corporate Bank	1.00	2.4273	111.4653	1.80
3.	New Bank of India	0.7560	4.4587	200.2980	5.10
4.	Oriental Bank of Commerce	0.2184	1.3394	115.5966	1.00
5.	Punjab & Sind Bank	0.8904	2.3506	242.1384	2.10
6.	Vijaya Bank	1.1764	3.0399	181.3849	2.40
	Total	5.0412	18.6174	1120.9918	18.50

Source: RBI, Statistical Tables relating to Banking in India, 1980.

The Stated objectives of taking over of these six banks, as given in the Act, were of a very general nature like to control the heights in the economy, to meet and serve better the needs of development of the economy and to promote the welfare of the people in conformity with the Directive Principles of State Policy.[62] The take-over of 6 banks may presumably contribute to the attainment of the stated objectives.

However, it is not at all clear if take-overs in other sectors and activities could not have contributed far more effectively and to a greater extent to the attainment of the same set of goals. For example, even in the sphere of banking, private, foreign banks were permitted to continue under the existing private managements. Given the size and significance of these foreign banks, on the criterion of the stated objectives alone, there is little reason to believe that their take-over could not have served the same ends better. Merely the need to increase the share of so-called priority sector lending by those six banks by a few percentage points (already in 1978 their share in such lending came close to 31 percent)[63] does not seem to be too compelling reason. The move to take-over the six banks, through an ordinance, came all too suddenly as there was neither any public controversy over or demand for take-over of the remaining private banks, nor any official studies, enquiries etc. on the issue were reported.

In the debate over the bill in the Lok Sabha, it was pointed out that the nationalisation move was initiated just before the Assembly elections were to be held owing to dismissal of non-ruling party state governments.[64] If the imputation has any substance, it bring out the role of nationalisation in swaying voting behaviour, indicating the appeal of confiscation, expropriation or deprivation of the

propertied to the general masses in a poor, underdeveloped capitalist economy. In so far as the rate of growth of deposits with those six banks was head and shoulders above the growth record of public sector banks,[65] it indicates that private trade and industry in India, which was making use of the banking system for their facilitating their operations in the black economy,[66] found reasons to repose greater faith in private banks. It is also possible that with the bigger banks already under public ownership and control, the smaller banks faced somewhat less powerful competition and expanded at a relatively faster pace. This step also brings out that partial nationalisation of an economic activity, especially when future operations in the sphere of action in question are not precluded from private banks, creates a discriminatory framework in which some sections find that their economic prospects became brighter. Thus, it seems reasonable to presume that the public acquisition of 14 major banks created a situation in which the relatively smaller banks found excellent opportunities for growth. However, nationalisation of 6 banks on the criterion of deposits exceeding Rs.200 crores showed that their initial gains from 1969 nationalisation was lost in 1980 when suddenly the axe fell on them.

From the view point of the character of the India State and the relationship between the dominant classes and the ruling political strata, one finds that the interests of a certain group or section of the former has at times to be sacrificed in a scheme of partial nationalisation with discretionary choice of the objects of nationalisation. This is an important part of the working of varipus spheres of our complex social reality.

Table - 7

Mergers and Amalgation of Commercial Banks Under Various Laws

Year	Voluntary Amalgamation under Section 44 A of Banking Regulation Act 1949.	Compulsory Amalgamations under Section 45 of BRAct, 1949.	Mergers Under Sections 35 and 38 of SBI Act, 55 & SBI(SB) Act, 1959 respectively.	Transfers of Assets & inabilities under CDS Act 56 Section 293(I)	Total
1960	2	-	-	5	7
1961	1	30	2	3	36
1962	3	1	2	5	11
1963	2	1	4	15	22
1964	7	9	1	62	79
1965	5	4	3	21	33
1966	-	-	2	5	7
1967	-	-	3	6	9
1968 June 1969	-	2	-	2	4
Total	20	47	17	124	208

Source: Upto 1965 from RBI Bulletin, October 1966, p.1152.
the Rest from D.N. Ghosh; Banking Policy in India, op.cit., p.44.

Notes

1. In the case of the former, Section 45 and in the case of the latter, Section 38. The SBI Act 1955 also had such provisions under section 35.

2. RBI., General Report, Volume II, Bombay, 1954 p.404.

3. History of the RBI, Bombay, 1970, p.532.

4. From an unpublished study (typed) by the Associated Banks Deptt. of the SBI on the Relationship of the SABs with the SBI. Chapter II, p.3. Later referred to as unpublished study.

5. Ibid. p.13.

6. Ibid. p.1.

7. Ministry of Law, Government of India, The State Bank of India (Subsidiary Banks) Act, 1959, Chapter 1, Preliminary.

8. The Act. op.cit., Chapter II., Section 3,7,9 and 10.

9. The Act, op.cit. Section 6

10. Ibid. Section 7(2)

11. Ibid. Section 18 and 19

12. Ibid. Section 19

13. Ibid. First Schedule

14. See Table II

15. Government of India, Ministry of Finance, Report - 1956-57 p.28.

16. The Act, op.cit. Section 38.

17. Unpublished Study on SABs., op.cit. pp.3-4. The Committee consisted of the Governor, RBI, Chairman, SBI; Shri Ram Nath, Prof. D.R. Gadgil and Shri B. Venkatappiah. It may be noted that the last two numbers were common to both the above-mentioned committee and the committee of Direction, All-India Rural Credit Survey, which gave a different model than subsidiarisation.

18. Idem.

19. Idem.

20. *Ibid.*, p.5.

21. *Ibid.*, p.6.

22. *Ibid.*, p.7.

23. Report of the Central Board of Directors, for the year 1962- SBI; Bombay. p.15.

24. *Ibid.*, p.6.

25. It was pointed out in the same debate that "the SB is going to have 55 percent shares. It is going to be the dominant partner in the reorganised banks." *Ibid.* pp.7-8.

26. *Idem.*

27. *Idem*, As this study mentions later on, "The basic rationale for establishing the control of SBI over the associated Banks was: (a) to integrate the basic infrastructure of banking and to bring it under indirect control of the Central Government and the RBI, (b) to ensure that canons of sound banking are observed in the policy and operations of the Associated Banks, and (c) to ensure their effective consonance with national policies" *Ibid.* p.13.

28. *Ibid.*, p.9. The Speech of the Governor, RBI, at the Advanced Management Seminar at Srinagar.

29. *Ibid.*, p.8.

30. "The managements of the Bank preferred separate, independent existence". *Ibid.*, p.11.

31. *Ibid.*, p.9

32. Government of India, Planning Commission, *Second Five Year Plan.* New Delhi, 1956, pp.43-50.

33. The Committee said, that "in the past few years several changes have occurred in the "socio-economic climate of this country which tend to discourage and discredit private enterprise". Quoted by Ashok Mehta in Lok Sabha Debate on SBI Act, 1955. *Lok Sabha Debates*. 1955, Part II, Vol.4, p.6261.

34. RBI, "*Trends and Progress of Banking in India*" 1960. Bombay, p.28. This provision was inserted by the Banking companies (Second Amendment) Act, 1960. (37 of 1960).

35. *The Act*, Section 35.

36. RBI, Report of the Committee of Direction, All India Rural Credit Survey, *op.cit.*, p.404.

37. Ghosh, D.N. *Banking Policy in India.*, Bombay, Allied, 1979. "The object of banking policy in the post-1950 decade being to protect the interests of depositors, the entire regulatory and supervisory apparatus developed by the authorities was built upon this premise" p.59.

38. Section 45 (2) and (3)

39. Unpublished Study by the SBI. *op.cit.*

39a. SCOPE. *Performance of Indian Public Enterprises*, New Delhi, 1978, p-237,

40. SBI, *Report of the Central Board of Directors for the year 1959*, Bombay, p.15.

41. The State Bank of India (Subsidiary Banks) Act, in *The India Code*, *op.cit.*

42. The Act, *op.cit.* Section 38 (2)

43. *Ibid.* Section 38 (8)

44. RBI, *Trends and Progress of Banking in India*. 1960.p.28.

45. *Idem*, emphasis added

46. Government of India, Ministry of Law, *The Banking Regulation Act*, 1949, (10 of 1949) (as modified upto 1st July, 1966) New Delhi, 1966. p.49. Section 45 (5) (6).

47. *Trends and Progress of Banking*, 1960, op.cit., p.28.

48. *Ibid.* p.29.

49. Letter No.OPR/No.011323 dated 13th March, 1981 and a subsequent letter from the Operations Deptt. of the SBI to the author.

50. See note No.52. Letter from the SB of Travancore No.AMAC/3850 to the author dated September 16, 1981. According to the procedure described in it, the transferee banks have in order to find out if a surplus or deficit exists. This has to be approved by the management of the transferred bank and the RBI. In case there is

deficit no compensation is paid. If there is a surplus generally it was paid to the shareholders on a pro rata basis.

51. RBI, Annual Report of the Central Board of the RBI, 1961. Bombay, 1961. p.46, p.28.

52. Trends and Progress of Banking in India, 1965, op.cit. for example, in a letter to the present author No.D.O. DBOD No. Rec/106/C-208-81 dated March 26, 1961 the Executive Director of the RBI says, "These banks ("the banks amalgamated under Section 45 of the Banking Regulation Act, 1949 and taken over under Section 35 and 38 of the State State Bank of India Act, 1955) cannot be deemed to be nationalised and, in fact, under the scheme, the payment to shareholders is considered only after full payment is made to the depositor etc. Though in most these cases the question of payment to shareholders did not arise, we are not in a position to furnish bank-wise details in view of the provisions of Section 28 of the Banking Regulation Act". It permits publication only in a consolidated form.

However, we could obtain the information about the procedure for determining compensation amount and the compensation figures for as many as 20 banks from their successor banks.

53. RBI, Annual Report of the Central Board of the RBI, 1961, op.cit, pp.45-46

54. Francis, A.K., Bank Mergers in India, 1960-65. RBI Bulletin, Oct. 1966. p.1153.

55. GOI, Ministry of Finance, Report of the Travancore-Cochin Banking Enquiry Commission, Delhi, 1956.

56. Government of India, Ministry of Law, The Banking Regulation Act, 1949, Delhi, 1966. in general.

57. "The Banking Companies Act, 1949, was enacted mainly for the purpose of protecting the interests of the depositors, As and when experience showed that the provisions were inadequate, fresh provisions were added to the Act or the existing provisions were amended." Report of the Banking Commission, GOI, 1972, Delhi. p.30. These measures were tightened up in 1960 to provide for compulsory amalgamation, "the failure of the Laxmi Bank and the Palai Central Bank in 1960 focussed the attention of the public and the authorities on the inherent risks involved in allowing a large number of substandard banks to continue to function." Ibid. p.31.

58. As the Report of the Banking Commission, op.cit. pp.17-18, put it, "The major objectives of monetary and credit policy during this period were the following:- (a) to contain inflationary pressures without affecting production; (b) to discourage the hoarding of particular strategic commodities in short supply; (c) to encourage the flow of credit to certain desired channels; and (d) to introduce measures for strengthening the banking system and creating institutions for filling credit-gaps."

53. [illegible]

59. The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The Gazette of India, Extra Ordinary, Part II, ~~Section I, No.~~36, 11th August, 1980, pp.249-261.

60. Lok Sabha Debates, Seventh Session, Vol.4, June 16,1980 Col.283.

61. Kamal Nayan, "Take over of 6 Banks is Welcome, But"...." New Age, April 27, 1980, p.4.

62. The Act, op.cit.

63. Economic Times, April, 1980.

64. Lok Sabha Debates, op.cit., col.301

65. Ibid col.283.

66. Ibid. col.301. Also, Kabra, Kamal Nayan, The Black Economy in India, Chankya, Delhi, 1982.

Table IV

Profile of Take-over of Smaller Banks

S.No.	Name of the Bank marged/taken-over	Was it closed or under moratorium	The Bank merged with	The law under which merged/ taken-over	Year	Compensation
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Bank of Baghelkhand (Voluntary Merg)(1933)	-	SBI	Section 35 of SBI Act.	1961	Evaluation Incomplete
2.	Mayurbhanj State Bank (1938) (Voluntary Merger)	-	"	" "	1961	Rs. 28.34 Lakhs
3.	Travancore Forward Bank Ltd. (1929)	Under Moratorium	State Bank of Travancore	Section 45 of the Banking Regulation Act	1961	No Compensation Liabilities exceed assety Rs. 199549.67
4.	Kottayam Orient Bank Ltd.	Under Moratorium	" *	" "	1961	No compensation Deficit Rs. 643330.04
5.	Bank of New India Ltd. (1944)	Under Moratorium	" "	" *	1961	Rs. 121,948
6.	Bank of Dewas Ltd. (1938)		State Bank of Indore	Section 38 of SBI (SB) Act.	1962	Rs. 1,67,007.54 (vide SB Index No.F&A/ & BTC/dated 8/9/81.
7.	Bhor State Bank Ltd.		State Bank of India	Section 35 of SBI Act	1962	Rs. 3,00 Lakhs
8.	Unity Bank Ltd.	Under Moratorium	" "	Section 45 BR Act	1962	No compensation paid until 1981 October.
9.	Randurg Bank Ltd. (1944)		State Bank of Mapore	Section 38 of SBI (SB) Act	1963	NA
10.	Vasudeva Vilasam Bank (Pvt.) Ltd.		State Bank of Travancore	" "	1963	Rs. 930,78/25.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
11.	Bank of Aundh(1938)		State Bank of India	Section 35 of SBI Act	1963	N.A.
12.	Cochin Nayar Bank Ltd.	Under moratorium	State Bank of Travancore	Section 45 of Banking Regulation Act	1964	Evaluation Not Approved until 1981.
13.	Latin Christian Bank Ltd. (1927)	-	" "	" "	1964	Evaluation Incomplete
14.	Champakulam Catholic Bank Ltd. (1929)	-	" "	Section 38 of SBI(SB) Act	1964	Rs. 70031/75
15.	Allahabad Trading and Banking Corpn. Ltd. (1883)	Under moratorium	State Bank of India	Section 45 of Banking Regulation Act	1965	Rs. 2.38 Lakhs
16.	Malnad Bank Ltd. (1933)	-	State Bank of India	Section 45 of Banking Regulation Act	1965	N.A.
17.	Chaldean Syrian Bank Ltd. (1918)	-	State Bank of Travancore	Section 38 of SBI(SB) Act	1965	Rs. 679/38 to Ex-Officis Manager Payable Rs. 683472/91
18.	Govinda Bank (p) Ltd. (1943)	-	State Bank of Bikaner & Jaipur	Section 38 of (SB) Act.	1965	Rs. 405,500 (vide letter of SBI & J dated 10.9.81)
19.	The New Fund Business of the Himalaya Bank Ltd.		State Bank of Patiala	" "	1966	No compensation paid (vide letter from SBP dated Dec.18,1981)
20.	Bengal Duars Bank Ltd. (1911)		State Bank of India	Section 35 of the SBI Act	1967	Rs. 0.79 Lakhs.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
21.	Raikut Industrial Bank Ltd.(1929)		" "	" "	1967	Rs. 0.15 Lakhs
22.	Kamla Bank Ltd. (1929)		" "	" "	1967	Rs. 0.10
23.	Bank of Alwaya Ltd.		S.B.Travancore	Sec.38 of SBI (SB) Act	1967	Rs. 297550/-
24.	Amrit Bank Ltd.		State Bank of Patiala	Section 45 of Br. Act	1968	NA
25.	Bank of Behar Ltd		State Bank of India	" "	1969	NA
26.	National Bank of Lahore Ltd.	Under moratorium	State Bank of India	" "	1970	NA
27.	Eastern Bank Ltd.	Licence cancelled	Chartered Bank	Section 22 of B.R. Act	1971	NA

Source:- Compiled from various issues of RBIs <u>Trends and Progress of Banking in India and</u> the Annual Reports of the Central Board of Directors of the SBIs. Date for Banks related to the SB of Travancore from a communication by its General Manager (operation) to the Rs. 39, No.AMAC/3850 dated September 1981 (*) Communication from the SBI dated 6 October 1981.

Table V

Financial Position of the Small Banks on the Eve of their Nationalisation

(Rs. Lakhs)

S.No.	Bank	PUC	Reserves	Deposits	Profit/ Loss	Advances	Invest-ment	No.of Offices (Units)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Bank of Baghelkhand (1961)	5.75	1.48	87.85	0.88	14.07	47.79	Nine
2.	Mayurbhanj State Bank (1961)	-	3.79	47.24	-0.11	7.46	36.95	One
3.	Travancore Forward Bank (1961)	15.00	7.50	375.58	-8.88	236.31	67.02	Forty Five
4.	Kottayam Oriental Bank (1961)	11.80	5.44	280.09	-1.78	225.52	89.63	Thirty Five
5.	Bank of New India (1961)	5.50	1.72	84.58	0.38	72.13	7.77	Twenty Eight
6.	Bank of Dewas (1962)	2.95	2.34	24.82	-3.18	16.58	9.25	Three
7.	Bhor State Bank (1962)	2.50	0.54	16.05	0.08	7.20	7.17	Four
8.	Unity Bank (1962)	0.50	0.70	7.67	0.14	2.63	1.38	One
9.	Ramdurg Bank	1.07	0.44	2.72	0.70	2.32	1.26	One
10.	Vasudeva Vilasam Bank	0.80	0.16	3.17	0.06	2.36	1.20	One
11.	Cochin Nayar Bank	4.94	1.98	119.15	-0.92	58.53	85.87	Eight

Table V Contd.....

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
12.	Bank of Aundh	1.71	0.74	14.86	-0.02	4.53	9.88	Eleven
13.	Latin Christian Bank	1.56	0.52	18.86	0.14	11.41	4.68	Four
14.	Champakulan Cathalic Bank	0.38	0.25	1.80	0.02	1.10	0.47	One
15.	Allahabad Trading & Banking Corpn.	0.20	3.82	4.99	-2.09	5.83	1.13	One
16.	Malnad Bank	1.57	0.35	10.07	0.01	2.41	4.92	Two
17.	Chaldean Syrian Bank	4.46	4.83	85.89	0.80	48.29	36.08	Twelve
18.	Govinda Bank	2.93	1.25	12.87	X	6.95	8.97	One
19.	The New Fund Business of the Himalaya Bank	2.34	1.45	10.51	0.04	8.06	2.04	One
20.	Bengal Duars Bank	0.85	0.17	3.36	-0.67	1.27	0.95	One
21.	Raikut Industrial Bank	0.73	-	1.25	-0.32	0.43	0.3	One
22.	Kamla Bank	0.41	0.56	1.33	-0.04	1.40	0.63	One
	Total	87.77	42.10	1224.70	772.39	382.34	178	

(1)	(2)	(3)	(4)	(5)	(6)	(7)
24.	Amrit Bank Ltd.		State Bank of Patiala	Section 45 of Br. Act.	1968	NA
25.	Bank of Behar Ltd.		State Bank of India	" "	1969	NA
26.	National Bank of Lahore Ltd.	Under moratorium.	State Bank of India	" "	1970	NA
27.	Eastern Bank Ltd.	Licence cancelled	Chartered Bank	Section 22 of B.R. Act	1971	NA

Source:- Compiled from various issues of RBIs Trends and Progress of Banking in India and the Annual Reports of the Central Board of Directors of the SBIs. Date for Banks related to the SB of Travancore from a communication by its Genegal Manager (operation) to the Rs. 39, No. AMAC/3850 dated September 1981 (*) communication from the SBI dated 6 October 1981.

Table VI

1. <u>Various Laws Under which the Smaller Banks (27) were Nationalised</u>

	Law under which taken-over	No.of Banks
1.	Section 35 of the SBI Act, 1955	7
2.	Section 38 of the SBI (Subsidiary Banks) Act, 1959.	8
3.	Section 45 of the Banking Regulation Act, 1949.	11
4.	Section 22 of the Banking Regulation Act, 1949.	1
	Total	27

II. Nationalised Smaller Banks : by Number of Branches

1.	More than 10 Branches	- Seven banks
2.	Exceeding 4 but under ten	- Two banks
3.	Exceeding one but under 4	- Seven banks
4.	One branch	- Eleven banks
	Total	- Twenty Seven

<u>Public Sector Banks with which the Small Banks were merged or amalgamated.</u>

	No.of Banks
State Bank of India	11
State Bank of Travancore	9
State Bank of Mysore, State Bank of Patiala	2+2=4
State Bank of Indore, Chartered Bank	One each
State Bank of Bikaner & Jaipur	3
Total	27

Nationalisation of Major Commercial Banks.

(A part of the Report on the ICSSR Project on "Nationalisations in India's Non-Agricultural Sector since 1947 - A Study in Policy Options").

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Nationalisation of Major Commercial Banks

Fourteen major commercial banks were nationalised in July 1969. It was an important landmark in the evolution of Indian policy towards nationalisation.

The legal process of take-over of the banks, salient features of the law and the size of the take-over are discussed in section I. It also discusses the issue of compensation. This discussion is intended to throw some light on the form and content of nationalisation. In the following section II, we discuss the main trends and characteristics of the development of banking as it is expected that these features had a bearing on the evolution of public regulation and control of banking which culminated in their nationalisation.

Section III is devoted to an examination of various government interventions in the field of commercial banking and their eventual graduation into banking policy. In the course of this discussion some attention is given to the question of factors influencing access to bank credit and the role of ownership and control in this connection. These issues are analysed in order to assess the rationale and limitations of indirect controls in achieving social objectives. Specific attention is given to the experiment with what was called 'Social Control' of banks.

This discussion brings out the gradual movement away from milder to stronger forms and methods of control over commercial banks, particularly in view of the changing needs of the economy with respect to the credit system. Hence in section IV we attempt an analysis of the broader economy-wide and sectoral factors which might have contributed to the decision to nationalise the commercial banks. In this respect we also refer to the role of politics connected with banks' take-over. Towards the end, we conclude by briefly putting together our major findings with respect to the policy options ranging from ad-hoc interventions and comprehensive law for control and regulation of banking to the State take-over of banks.

I

Nationalisation of 14 major commercial banks, each with deposits of not less than Rs.50 crores, took place on July 19, 1969 by a Presidential Ordinance, called the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969, which was subsequently replaced by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969 (No.22 of 1969), passed in August 1969[1]. The

take-over could not become fully effective on account of an interim stay granted by the Supreme Court in response to some writ petitions.[2] The Supreme Court, while (by a majority judgment) upholding the competence of Parliament to legislate for nationalisation, struck down the Act 22 of 1969 in its entirety on account of three factors, viz., hostile discrimination against the take-over banks, restriction of the right to carry on business and determination of compensation on the basis of irrelevant principles. These objectionable aspects were considered inseparable from the main Act; hence the whole law was held void.[3]

This necessitated a fresh enactment, called the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (No.5 of 1970) which removed the defects pointed out in the Court Judgment. The law was given retrospective effect from July 19, 1969.

The original 1969 Act stated its objective as "to serve better the needs of development of the economy in conformity with national policy and objective".[4] The statement of objectives in 1970 Act specified that it provides for "the acquisition and transfer of the undertakings of certain banking companies having regard to their size, resources, coverage and organisation, in order

to control the heights of the economy, and to meet progressively and serve better, the needs of development of the economy in conformity with national policy and objectives."[5] This is a far more specific statement of the objectives of take-over in terms of extension of public ownership and control for regulating the 'heights' of the economy i.e., large and concentrated centres of economic power and for contributing to economic development in a progressively better manner. Additionally, it specifies the criteria for the selection of the banks for take-over (size, coverage, resources, organisation), which, being a part of the statement of objective, gets related to the objectives of nationalisation. Though the change came about in order to meet the objections raised in the court judgment, it made for greater clarity in the stated objectives of the move to take-over 14 major commercial banks.

The new Act also took care of the other points raised in the judgment of the Supreme Court. For one thing, it just specified the amount of compensation which was to be paid to each existing bank (without stating the principles for determining the amount) and the mode of payment consisting of three options or any combination of them.[6] As a result, of the 14 nationalised banks, 2 opted for

cash payment of entire compensation and the rest for a combination of cash and government securities.[7] The 1970 Act also provided that the payment of compensation is to be made within 60 days of the receipt of option concerning mode of payment from the banks.[8] Thus financial resources will be available to the existing banks more or less immediately after take-over. The Second Schedule of the Act showed the amount of compensation payable to each bank, which ranging from Rs.2.30 crores for two banks was as hish as Rs.17.50 crores for the Central Bank of India Ltd. (See Table I) The total amount of compensation amounted to Rs.87.40 crores.[9] This amount was 13 percent higher than that provided in the earlier law held void by the Supreme Court.[10]

The 1970 Banking Companies take-over law also made the law free of objections from the point of view of one the supposed unreasonable restriction on the then existing banks in carrying on non-banking business; second, hostile discrimination against them in so far as they were prohibited from carrying on banking business, while other non-nationalised Indian and foreign banks were not prevented from undertaking banking business,[11] even from going in for setting up new private banks. The new law did not contain any express prohibition in respect of the existing banks to carry on banking business.[12]

One can say that apart from delaying implementation, nothing very significant was achieved specifically with respect to take-over of major banks, by going to the Court except a 13 percent increase in the amount of compensation and prompter payment. The law also acquired relatively greater clarity with respect to statement of its objectives. However certain judicial pronouncement on the question of compensation contained in the judgment on the bank nationalisation case were seen as impediments to future nationalisations of big industries.[13]

In terms of the provision of the Act, the Central Government, in consultation with the RBI, is empowered to reorganise the banks by reconstruction and amalgamation, appoint Board of Directors and determine their capital structure.[14] The Board of Directors to be nominated by the Central Government, was to include representatives of the employees and depositors of each bank and persons to represent the interests of farmers, workers and artisans. It was also provided that the nationalised banks shall be guided by policy directives issued by the Central Government after consultation with the Governor of the RBI.[16]

These provisions of the nationalisation law ensure that the banks will be under the control and supervision of the Central Government. For the purpose of carrying

out the functions of controlling and directing the banks, a new Banking Department was set-up in the Ministry of Finance.[17] Not only the government is entitled to issue directives concerning functioning and policies to the public sector banks, but were also empowered to reorganise and restructure them. Moreover, while representation was given to employees on the boards of the banks (unlike earlier bank, life insurance and civil aviation take-overs), no statutory stipulation concerning adherence to sound banking principles as was done in the case of the State Bank of India was imposed.[18] The implications of this omission could be serious. As was pointed out, "It hardly needs emphasising that it would be imprudent to give credit to a farmer merely because he is a farmer. Unless the bank satisfies itself that the farmer is credit-worthy and will be able to repay the loan in time and without default, the loan should not be sanctioned. Business principles therefore, become the guiding criteria in day-to-day operations."[19] What is apparent is that the absence of allusion to business principles may enable the banks to go in for non-conventional business practices like adoption of a different type of criteria governing credit-worthiness which is more in keeping with the inherent nature of public sector banking.[20] This may

seriously influence credit-allocation and hence the anxiety on the part of the established business interests about the absence of such a provision.

In so far as the take-over law provided for the representation of labour, agricultural and small industry interests and professionals like economists, it was a step towards comparatively greater democratisation - than seen in earlier take-over laws. As we shall have occasion to see, in the course of the debate on the nationalisation bill in Parliament, as also in many official publications, there was a detailed exposition of the new and progressive tasks assigned to the nationalised banks.

The amount of compensation paid to the interests who owned and controlled the banks can be significant in determining the socio-economic character and content of nationalisation. Banking being what it is, not much significance can be attached to the relationship discovered between the compensation amount paid to a bank and either the amount of deposits mobilised or advances made by the bank. This becomes clear if one looks at the ratio of networth (own capital) to deposits of Indian banks. For example, it was pointed out that "the ratio of paid-up capital and reserves to deposits of Indian banks had steadily declined from 9 percent in 1950 to 5 percent in 1960, and in the case of several banks to

even below 5 percent."[21] These facts show tenuous nature of the relationship between the capital base of a bank and its deposit mobilisation. What is considered a safe level of this ratio is also not very high, as the law requiring the banks to transfer a part of their profits to the reserves stipulated that the process of such transfers should continue "till the ratio of paid-up capital and reserves reached 7½ percent of the deposits."[22] It is clear that since there is very weak relation between networth and deposits, there can be little point in relating compensation to deposits. Afterall, the deposits are bank's live liabilities. The same argument applies with respect to bank advances, which are unencumbered and are no durable assets of a bank. Some idea of the relative magnitude of compensation can be obtained by looking at it as percent of the networth of banks. In Table I, we see that for all the 14 banks taken together, the ratio came to about 126 percent. It was higher than the average level for four relatively bigger banks. The range of the ratio extended from just a little above 100 to 141. It means that while every bank was given compensation at least a little more than its net worth, in some cases the compensation exceeded net worth by over 40 percent. Compared to other nationalisations up to 1969, the scale of compensation payment was not on a higher side.[23]

On the eve of nationalisation of 14 banks, the SBI and its subsidiaries already formed a nucleus of public sector banks, accounting for about 27 percent of the total deposits and nearly 30 percent of all bank offices. At the time of take-over, total deposits of these banks stood at Rs.2626.2 crores, forming 56 percent of the total for the banking system. With their 4168 branches, they contributed 50 percent of the bank offices. Thus, the 1969 take-over brought the share of nationalised banks in total deposits to 83 percent and in bank offices to 80 percent.[24] The share of all nationalised banks in total bank credit came to 82.8 percent.[25] After nationalisation, 15 foreign banks (including 2 under the custodian of Enemy Property), 35 scheduled Indian banks and 17 non-scheduled commercial banks, i.e., a total of 67 banks remained in the private sector, though their share of banking did not exceed 20 percent. Except some foreign banks, all the remaining private banks had deposits below Rs.50 crores. However, there was no provision that when these banks exceed the cut-off point of Rs.50 crores of deposits, they would be taken-over by the government.

If banking, insuance and term-lending institutions form the main body of India's organised financial sector, the take-over of 14 major banks contributed significantly

to give the public sector commanding heights in the ownership and control of this sector. Apart from a small fraction of banking, general insurance was the main remaining part of the financial sector. The long-term financial institutions formed a part of the public sector as they were created by the government through fresh investments (by "nationalisation of the vacuum" as Michael Brecher[26] put it). In this sense, alongwith many features of the law which enhanced the public content of the take-over, as seen above, the take-over of 14 major banks was one of the most significant nationalisation measures adopted in post-independence India.[27]

The partial nationalisation of banking is not exactly similar to the take-over of industries. In the later case, private property in the form of physical capital goods, organised as running enterprises, are transferred from private to public hands for continued operation. In banking there is very little physical productive capital; it does not produce material goods but makes money capital or finance available for acquiring the physical wherewithal of production. In fact, the ratio of banks' owned capital to the deposits it mobilises (the basis of credit creation by banks) is, even in the most ideal conditions low; being in the range of 7 to 10 percent. In India, it became

very low on the eve of nationalisation; being as low as a little over one percent.[28] Thus, the significance of bank nationalisation is not in terms of the transfer of physical, productive capital assets. Its real importance derives from the transfer of the right to create and allocate credit and dissociation of this right from private industrial capitalists. This makes the impact of this move in terms of a change in property relations not less but more, critical, though the actual property or capital transfer, ipso facto, brought about by it is of a limited size. It also makes the impact a potential one which will depend on the policies the nationalised banks decide to follow.

II

An appreciation of the forces and factors making for bank nationalisation and the range of policy choices available has to proceed in terms of an account of the essential nature and features of the banking sector as it has developed during a period of over a century. Apparently, it is beyond the needs of the present study to go into the large number of documents and data concerning the evolution of commercial banking in India. Quite a few such accounts are now available,[29] in contrast to 1920s when Keynes felt

that the literature of Indian banking is "almost non-existent."[30] Our purpose would be served if we are able to isolate the main trends and characteristics of the Indian banking system with a view to relating them to the need for and forms of public regulation and control of banking in India.

As pointed out by Keynas, there were four main components of Indian banking systems: i) the Presidency Banks, ii) European Exchange Banks, iii) Indian Joint-stock Banks, iv) the shroffs, Marwaris and Indian bankers. The first two can be taken to constitute the foreign-dominated segment and the latter two the Indian segment.[31] Despite the connection between the organised sector Indian joint-stock banks and the unorganised sector bankers, for our present purposes, it will suffice to deal with the trends and traits of the former only, along with the foreign dominated banks, particularly the Presidency banks.

Just as the modern factory system and the attendant capitalists forms of organisations emerged in India as an after-math of the linking up with and domination of the Indian economy by the British economy in a network of colonial relations, the emergence of modern, organised commercial banking was similarly placed.[32] The first major bank to come up in India in the year 1806 was set up with active support of the Government of Bengal in

which the East India Company even contributed sizeably to the share capital. This bank, later named the Bank of Bengal founded the nucleus of the chain of three Presidency banks which can be treated as marking the beginning of systematic banking in India. The Bank of Bombay came into existence in 1814 followed by the Bank of Madras in 1843.[33] These banks were started under charter, imposing many restrictions on the forms and volume of business which these banks could undertake. These banks also had the advantage of doing government business as also of the use of government balances. In year 1876, the Presidency Banks Act was enacted to regulate and control the functioning of these banks, particularly, on account of the fact that, on a certain limited scale, these banks were also granted privilege of issuing currency notes.[34]

However, the Paper Currency Act of 1861 made note-issue a government monopoly and consequently the growth of Indian banking, unlike that in many more industrially advanced countries, had to be without the spur provided by competitive note-issue by commercial banks.[35] Moreover, since the Reserve Bank of India, as the central bank of the country, came into being in 1935,[36] the development of Indian commercial banking lacked the crucial support for a long time

in its earlier phases which a central banking institution can provide.

Given the above and the tradition of banking functions performed by English agency houses for the East India Company, the emergence of Presidency Banks - as semi-official banks - owed their origin to the initiative of governmental agencies and involved continued association of the government.[37] During the last two decades of the last century, after the passage of an Act, permitting the setting up of joint-stock banks with limited liability, the growth of Indian joint-stock banks was noticeable, of which 9 were in existence in 1900 with Rs.1.20 crores of capital and reserves and over Rs.8 crores of deposits.[38] If the progress of banking could not be faster except under the stimulers of events like the American civil War, and the Cotton Boom, it was a reflection of over-all stagnation in the Indian economy during the later half of the 19th century.[39] What is remarkable is the direct role of the State in connection with the Presidency banks and the indirect role with respect to Indian joint-stock banks.

In 1921, the three Presidency banks were merged to form the Imperial Bank of India under the Imperial Bank of India Act, 1921.[40] This was the largest commercial bank which also acted as a quasi-central bank, and had PUC and

reserves of Rs.7.53 crores and deposits of Rs.87.05 crores, i.e., deposits exceeding the combined total of all Indian joint-stock banks. By then about 15 exchange banks (foreign banks) were operating, mainly conducting foreign exchange and remittance business which were not handled by the other two types of banks.[41]

The two tables given below show the growth of banking in terms of the growth of banks deposit liabilities and the number of banks for the period 1900 to 1957. Table II shows the growth of deposits for the IBI and the scheduled banks for the period 1900-1955 the time of take-over of the IBI. Table III shows the change over the period 1920 to 1957 in the number and deposits of banks categorised into four groups on the basis of their own capital and reserves. Both the tables show the absolute size of growth of banks in an important respect, viz., deposits, as impressive being nearly 40 times over the first-fifty five year since 1900. It is clear that this is a growth record unmatched by the increase in the national product, even in current prices (to which deposits in nominal money terms can be related).[42] It can also be seen that the total number of banks in all the four categories increased, over the period, though not uniformly in all the categories. While the number

of larger, 'A' and 'B' category banks increased upto 1950, there was a reduction in the number of banks after 1950. Very small 'C' and 'D' category banks started emerging much latter, during the Second War period, but the number of bank failures, liquidations, closures and mergers was very large, leading to a sharp reduction in their number, though the process of consolidation of the banking structure gathered momentum only after 1950. In 1957, while 'D' category banks had just a token presence, even 'C' category banks disappeared in large numbers. Taken together, we find that after 1940, the total number of banks tended to decline continually, coming down in 1957 to nearly half the number existing in 1940.

The position regarding the number of banks in the subsequent period 1961-68 was as shown below:

	1961	1966	1968
1. Indian Scheduled Commercial banks	67	58	58
2. Foreign banks	15	15*	15*
3. Non-Scheduled banks	210	27	17
Total	292	103	90

* Two under the custodian of Enemy Property.

Source: Trends and Progress of Banking in India During January 1968 to June 1969, Bombay, 1969, p.42.

It can be seen that the number of banks operating in India declined as a result of liquidations and, mergers of smaller, non-scheduled banks with other banks, particularly during 1961-1966.

Though the large number of smaller banks made the banking structure quite diffused, there was a noticeable degree of pre-eminence enjoyed by the larger banks, particularly the IBI upto 1955 and the SBI subsequently alongwith major scheduled banks, in terms of their share of total bank deposits. Largely a similar situation could be seen with respect to other possible indicators like level of bank credit, number of offices, etc. In fact, as the other major banks strengthened themselves, the share of the Presidency bank declined from about two-thirds of total deposits in 1900 to about 55 percent in 1920 (for the successor bank, i.e., the IBI) to about one-fourth in 1955 when it was taken-over.

Similarly, the larger banks ('A' category) accounted for over 96 percent of the total deposits in 1920, over 87 percent in 1940 and again over 97 percent in 1957. On the eve of take-over of 14 major banks, we have seen, the public sector banks controlled over 83 percent of bank deposits, leaving 67 private banks with about one-sixth of total bank deposits. Thus one can see that banking was heavily concentrated and was tending towards greater centralisation.

It was pointed out that though the record of the banking system in terms of number of banks was impressive, "not all expansion that has taken place in recent years has been of a healthy type."[43] As a result during 1941-46, there were, under favourable general conditions, as may as 254 liquidations of joint-stock banks, and 114 during 1947-49.[44] As can be seen from Table III above, the average size of deposits, of the smaller banks was ludicruously low, (e.g. Rs.2.69 crores for 170 banks and Rs.1.31 crores for 124 banks), ruling out any possibility of their viability. Most of the smaller banks were concentrated in Kerala, Madras and West Bengal.[44]

Such small banks could not earn reasonable profits and the depositors interests were often jeopardised. With reduction in the number of banks, the profitability of the surviving larger banks also improved. For instance, the number of banks operating either at a loss or no profit declined from 24 in 1960 to 4 only in 1965.[45]

The banking offices were concentrated in a few centres. For instance, in 1916, nine important cities (four great ports and 5 big up-country centres) had 32 percent of the total offices, their share declined to 16 percent in 1936.[46] The tendency of banking offices to become spatially concentrated was aided by the policy of hewer and larger banks to follow the successful example of branch opening

by pioneer banks.[47] Thus the bigger banks acquired a strong regional base. On the other hand, nearly two-thirds of the banked towns were served by smaller, local banks,[48] largely in the nature of unit banks. Along with the increase in the number of banks, there also came about "careless and unscrupulous branches"[49] expansion, which added to the vulnerability of the banking structure. In the year 1949 there were 3991 offices of commercial banks, of which 2089 (over 52 percent) were in larger cities and districts and 1902 (nearly 48 percent) in other smaller places.[50] While most of the cities and towns (bigger and medium-sized) have banking facilities, there are serious gaps in banking services with respect to smaller towns and rural areas.[51] Thus the number of branches, which stood at 5335 in 1945, at 4000 in 1955 increased to 8262 in June 1969.[52] However, bulk of the branch expansion was by the larger banks. Despite the statutory obligations placed on the IBI and the SBI for a vigorous programme of branch expansion[53] and the success of the latter in meeting the targets, the inadequacies in regional coverage, both with respect to certain States, like, Assam, Rajasthan, Madhya Pradesh, Bihar, Jammu & Kashmir and with respect to small-towns and villages, persisted.[54] To make the regional imbalance worse bank offices in poorly banked

areas acted mainly as deposit collection centres as is reflected in their relatively poor share in bank credit as compared to the share in deposits. The trend was the other way round in better banked States.[55]

The structure of bank credit, viewed sectorally, also showed a distinct preference pattern, derived more from the ownership structure and prevailing economic structure than the needs of a growth-oriented economy. Till about early fifties, the share of commerce in bank credit exceeded that of industry. It was over 48 percent and 52 percent in March 1949 and 1950 for commerce against a little over 32 and over 33 percent for the respective years for industry.[56] After mid-fifties, the share of industry in bank credit started to exceed that of agriculture as can be seen from Table 4, by 1968, the share of commerce become a little under one-fifth of the total while that of industry approached the level of two-thirds of the total. All along, and despite the take-over of the IBI, the share of agriculture hovered and 2 to 3 percent of the total. In fact, this share was 3.7 percent in 1949,[57] a level which could not be surpassed during the entire subsequent period over which the major commercial banks operated under private control.

The pattern of credit allocation was also tilted in favour of larger account-holders. For instance, in 1967, the

accounts exceeding Rs.10 lakhs, which accounting for 0.5 percent of the total accounts, obtained 61.6 percent of total credit; a negligible number of accounts in excess of Rs. one crore each, took away as much as 23.4 percent of total credit. On the other extreme, account holders below Rs.10 thousand each, who number 81 percent of the total accounts, could share no more than 3.7 percent of the total credit, which then stood at Rs.2717.25 crores.[58]

Such a high level of regional, metro-politan, sectoral and account-holders-wise concentration of bank credit owes itself, among the things, to the ownership and control pattern of banking. No wonder that the committee on Distribution of Income and Levels of Living and the Monopolies Inquiry Commission drew pointed attention to the use of bank-credit for industrial expansion which has in the main benefitted the big and medium enterprices.[59] The smaller banks in India, functioning practically as unit banks, never accounted for a reckonable part of the banking business and, as seen earlier, through bank failures, liquidations, mergers and amalgamations eventually disappeared from the scene. On the contrary, the major banks accounting for the bulk of banking business in India, remained a durable features of India's banking scene.[60]

The larger banks had very close connection with the Captains of the Corporate industrial sector. It was shown that 188 directors of top 20 banks controlled 1452 directorships. The extent of inter-locking directorships among these was such that the top 12 percent held nearly 39 percent of total directorships; 20 percent of the directors held between 11 to 20 directorships each. It was further found that the directors of the five big banks were, through common directorships, related to 33 insurance companies, 25 investment banks, 6 financial companies, 26 trading companies, 15 non-profit associations, and, to cap all, to 584 manufacturing companies.[61]

As the official history of the RBI puts it, "There was again in some cases, a desire on the part of industrial houses to have under their control sizeable banking and insurance establishments; this inter-locking of interests between banks, insurance companies and industrial concerns was generally detrimental to the interests of bank depositors."[62] There was a close connection between each of the major banks and some of the leading industrial houses.[63]

The narrow-base of the control over banks has another dimension in the form of concentration of shareholdings of banks in the hands of a relatively small minority. An

unpublished study of the RBI[64] on the ownership pattern of banks' shareholdings on the basis of a sample of 9 banks accounting for about half of the ordinary paid-up capital of 61 Indian scheduled banks for the year 1965 showed that, while individual investors, forming 98.7 percent of the accounts held about two-third of the shares, but the share-holders in the size-group of over Rs..50 thousand held a little less than two-fifths of the shares. Thus about 40 percent of the share-value was owned by less than 0.4 percent of shareholders. Those with shareholding of less than Rs. one thousand formed nearly 70 percent of the number of shareholders but held about one-tenth of the shareholding. Joint-stock companies controlled shares worth about Rs. two crores in 352 accounts. LIC, UTI and government together held equity worth 3.73 crores, i.e., over 17.4 percent of the total (See Table 5). With such a greatly centralised ownership, with intimate inter-locking of directorships between banking companies and manufacturing companies and command of large industrial houses[65] over the major banks, there is little wonder that the banks display the structural and functional features we have seen above.

The main features of the development of commercial banks in India upto the time of their State take-over in

1969 show that through its haphazared evolution, the banks became concentrated in terms of spatial location, number of units, size (seen either in terms of deposits or advances) and ownership of shares. In fact, in the initial phases, Indian banking was under foreign domination. There is little doubt that such a pattern of share-ownership permitted the banks to pass under the sway of a few large industrial houses who contributed to the shift of bank credit mainly from commerce to industry. The smaller number of surviving larger banks left many regions, many sectors, many sections of population, smaller towns and villages inadequately served by the growth of banks. Many studies pointed out the role of such oligopolistic-oligopsonistic banking structure in strengthening the processes of concentration and centralisation in India corporate sector, particularly the part connected with manufacturing.[66] While it is true that as a result of such a control structure of banking, among other things, finance could not be considered a significant constraint on the rate of industrial investment[67], it is clear that this is correct for the large, organised sector industries only; the small, cottage and artisan industries could not acquire very fecilitous access to bank finance, particularly for medium and long-term purposes. The evolution of the banking structure, pattern and specific features, as seen

above, were not the result of the operation of autonomous economic factors alone; the nature, role and extent of public policy with respect to banks (some already referred to, like early governmental initiatives for setting up banks, special relationship with the IBI, making it virtually a quasi-government bank, late setting up of a central bank, mergers, etc.) were also closely connected with these developments. How the evolving structure of economic activities, both affected and was affected by banking developments is not a question we need address ourselves to. But there is little doubt that as the concern of the government, right from pre-independence days, regarding macro-economic management and socio-economic developments increased, it discerned a marked hiatus between the pattern of banking and the pattern of desired socio-economic development. As a response, the government was impelled to move from mere interventions in banking to banking policy. In the following section we attempt to examine the public interventions and policies concerning commercial banks.

III

As seen earlier, the emergence of banking in India owed itself considerably to the direct initiative and

contribution made by the colonial state.[68] The State provided the charter, a part of capital and management, a good part of banking business, support of its deposits, controlled and shared right of note-issue, prohibition of participation in relatively more hazardous foreign exchange business, etc. This was, however, confined to banks under foreign control. When prior to the First World War, Indian joint-stock banks started emerging in the wake of the ascendent Swadeshi movement,[69] partly facilitated by the extension of the principle of limited liability to banking, the role of the government entered indirectly: absence of any promotional help or regulatory nurturing, made the Indian banks prosper and perish alternatively under the impact of broader economic forces. This period was dotted by short periods of a spurt in banking, followed by one of crises in the form of failures and liquidations. The State did not enter the picture as far as Indian joint-stocks banks were concerned, except for providing the rudiments for regulating the registration, incorporation, management, capital structure, etc. under the provisions of the Indian companies Act, 1913, which applied, except for a few minor differences (like prohibition of partnership banks and publication of data concerning assets and liabilities), equally to banking and non-banking companies.[70]

It may be taken to suggest that just as setting up of industries in India was far from being a part of the colonial interest and design, except for the proping up of the Presidency banks for serving colonial economic needs, any support to Indian organised banking prior to the First War was of little concern to the colonial policy-makers. The banks which came up during the period were largely free from regulation specifically oriented to the needs of banking business particularly in view of the custody the banks acquire over the savings of the community and addition to and allocation of purchasing power. There is little wonder then that in the absence of public regulation, before long, during 1913-1917, there were a large number of bank failures (87), as a result of widespread non-observance of even the elementary banking principles.[71] These weaknesses arising from malpractices, etc. were made worse by the absence of a Central Bank which could act as the lender of the last resort and bail out, at least temporarily, the faltering banks. The question of banking regulation during the period following the First War was debated as an implied part of the debate over the setting up of a Central Bank, which, inter alia, would play an important part in bank regulation.[72] Given the lack of direct stakes in the development of internal

trade and industry, the banking policy, except that related to largely foreign-controlled Presidency Banks, was also along the lines of laissez-faire: only the companies Act governed some aspects of setting up of banks.

Not only the Indian banks were disadvantageously placed vis-a-vis the government supported Presidency Banks which held and operated with government cash balances, but they had to derive clientele and support from indigenous trade and industry alone which were in any case not too thriving entities. We have referred to the view that the supply of finance (capital) was not considered an onerous constraint on industrial investments in India,[73] and though similar views were presented before the Indian Industrial Commission by both Indian and foreign businessmen, the Commission came to the conclusion that the extent of growth and policy orientation of the banks showed that a little was contributed by the banks to development of Indian industries.[74]

Indian banks showed better growth during the inter-War years than they did during the pre-war period. The number of banks with networth in excess of Rs. 5 lakhs increased from 25 in 1920 to 39 in 1937, and the deposits moved from over Rs.71 crores to over Rs.100 crores during

the same period. However, the growth of deposits was marked by fluctuations; during 1926 to 1931 the deposits fluctuated around Rs. 60 crores.[75] This period saw a much bigger increase in the number of smaller banks, from 33 in 1920 to 108 in 1937, though the average deposits per bank remained almost unchanged around Rs.0.07 crores.[76]

The growth of the Presidency Banks, and after 1920, of their successor, IBI was not as impressive as that of the Indian banks taken together; its non-government deposits increased, in a fluctuating manner, from Rs.78 crores to Rs.81 crores during 1920-1937.

Not only the growth of banking was haphazard, but it was, as seen earlier, characterised by many structural and functional shortcomings. These features prompted a three-stage comprehensive enquiry (to begin with, provincial enquiries, followed by an all-India co-ordination committee which looked into residual aspects, and then a study by a foreign experts dominated Central Committee) in 1929. These reports and the volumes of evidence they collected provided enormous information on Indian banking.[77]

The Indian Central Banking Enquiry Committee, 1931 recommended a comprehensive banking legislation covering organisation, management, audit, liquidation of banks, etc.[78] Since a separate banking enactment did not seem to materialise in the short-run, the Indian Companies Act, 1913

was amended in 1936. As a result, a separate chapter regarding banks containing provisions concerning strengthening the capital structure (minimum PUC, maintenance of reserve funds and cash reserves, etc.), restriction on the nature of subsidiary companies and on the nature of managing agents, was added to the companies Act, as an interim measure.[79]

Meanwhile, a long process of attempts for setting up a Central Bank culminated in the setting up of the RBI in 1935.[80] Among the factors which argued a case for a central bank were the "advantages arising from the control of the banking system of a country by a solid powerful central institution".[81] Indian commercial banks began to function under the special provisions of the companies Act and under the bankers' bank and banking regulation functions of the RBI.

One major instrument at the command of the RBI for controlling commercial banks was the one pertaining to grant of scheduled status in terms of the RBI Act. A bank which was a company or a statutory corporation with paid-up capital and reserves amounting to at least Rs. 5 lakhs was entitled to be included in the second schedule to the RBI Act and thus acquire the scheduled bank status.[82] This was so "more or less as a routine, irrespective of their financial position, as the returns submitted by them were

not adequate for such as assessment and the (Reserve) Bank had no statutory power of inspection of their affairs.[83]

While the RBI was supposed to come to the rescue of the banks as the bankers' bank in times of need like that of a run on a bank, it had no means of finding out whether the bank's affairs were run on sound lines, let alone the question of ensuring such a thing. Though the scheduled banks were required to keep a certain specified deposit with the RBI, this, by itself, was not adequate to make them conform to a certain discipline. The RBI took initiatives about improving remittance facilities, reduction of stamp duty on prominory notes in order to popularise the use of bills for commercial transactions, and permitted the non-scheduled banks to open accounts with the RBI. These measures could be counted among the first set of measures for promotion of banking in the country. Even then, by and large no systematic effect was initiated for introducing measures to bring about structural and policy changes in the banking business from the point of encouraging the processes contributing to development of the economy. Thus, by the beginning of the forties except for some initial steps towards regulatory provisions and still weaker ones concerning promoting banks, hardly any step towards use of banks for economic development, for encouraging industries.

or linking up banks and the indigenous money markets for providing development finance for agriculture were witnessed.

Operational problems in extending assistance to banks by means of rediscounting of bills made the RBI go in for a scrutiny of the balance-sheet of the banks seeking assistance, which went to the extent of an inspection of one bank by the RBI on behalf of the government.[84] In the face of mushroom setting up of banks and some notable bank failures, like that of the Travancore National and Quilon Bank in 1938, the inadequacy of the RBI's regulatory and control powers became evident.[85] For one thing, changes were made in the Companies Act to adopt a somewhat restrictive definitions of bank, banking and banker and concerning voting rights and capital structure.[86] Then, the RBI Act was amended in 1940 to tighten up the requirements regarding statutory reserves with the RBI.[87] Then, under the Defence of India Rules, 1943, floation of new banking companies or raising of fresh capital by equity issue without the consent of the government were prohibited.[88]

However, the number of scheduled banks increased by 35 between 1939 and 1945, as against by 10 during the inter-war years. Deposits also increased sizeably; but instead of advances, the increase on the assets side was

mainly in the form of investments in government securities, which at a yield of 3 percent or more were found profitable by the banks.[89] Spurred by such profit-earning opportunities, many smaller banks came into existence and the number of branches of all banks increased from 1964 in 1940 to 5201 in 1945.[90] That the expansion of banking was like a flash in the pan and without a sound basis can be seen in terms of the number of bank liquidations which rose to a number high as 444 between 1939 and 1946.[91]

Though there were efforts in terms of changes in the companies Act, the RBI Act and the Defence of India Rules, to maintain the banks on the path of healthy viability, the actual state of affairs showed that not much could be achieved by way of strengthening the banking structure. For one thing, the early steps towards banking regulation suffered from a diarchical set-up in terms of the Companies Act and the RBI Act. Then, the RBI was under private ownership with limited governmental control. Thus the ownership and organisational framework of the RBI were not capable of letting it emerge as an administrative agency capable of controlling the banking sector from a national socio-economic perspective. The legitimacy of such powers in the hands of the RBI also carried a questionmark. The Company Law administration had the legal authority but

was handicapped by a non-comprehensive, non-specific legislation. The non-specialised orientation of the company law administration in so far as banking was concerned was a further facto which prevented effective banking regulation and control.[92]

In view of these factors, need was felt for a comprehensive banking legislation; as far back as in 1931 the Central Banking Enquiry Committee pleaded for such a legislation.[93] Many legislative attempts, based on the recommendations of the RBI, for enacting such a law proved futile.[94] Controversies throughout the first half of the forties over an acceptable definition of banking, on the question of minimum paid-up capital (opposed by the smaller banks), and reserves, liquidity requirements, the qualifications for director of banks, statutory liquidator's role for the RBI, etc. made the enactment of a law difficult. The RBI submitted many proposals for such an enactment, but none materialised.[95] Meanwhile, a review of floation of banks made by the RBI brought out certain short-comings like weak capital base, capital structure such as would vest control over banks into the hands of an individual or a small group and adoption of various devices by non-banking managing agents of the banks to defeat the provisions concerning bank managements. Thus the managing directors of

banks managed to obtain bank funds for industrial concerns under their control.[96] This not only violated the provisions of the company law, but gave an unfair advantage to some to allocate credit to themselves preferentially *vis-a-vis* those who did not or could not catapulate themselves into position giving them such a control over banks. The RBI's proposals were intended to prevent such malpractices. However, those proposals were tilted against what the official history of the RBI calls, "petty institutions", but the RBI did not consider it a serious limitation, as "the banks which might go under if its proposals were brought into force represented less than 5 percent of the total bank deposits of the country."[97] As we shall see later, the large bank bias of the bank regulation laws and policies became a significant influence on the determination of the nature and character of Indian banking structure. Through the Indian Companies (Amendment) Act, some provisions regarding capital base, structure and prevention of tie-ups between the controllers of banking and non-banking companies were brought into force.[98]

A significant hitch concerning a comprehensive banking law related to the question of covering the foreign-controlled exchange banks and similarly controlled IBI, for which there already was a separate Act. While Indian opinion

sought to cover these banks as well, (though the RBI resiled from its earlier position to bring the IBI under a common law) the foreign interests connected with those banks were opposed to such an extension.[99] The Banking Companies Bill, 1944 lingered on in the Legislative Assembly and owing to the dissolution of the Assembly, lapsed in 1945. However, as a result of the interim measures, the number of bank failures recorded a significant decline towards mid-forties.[100] Pending a separate banking law, in 1946, two interim measures were introduced to empower the central government to direct the RBI to undertake an inspection of the books and accounts of any banking company to see if the bank's affairs were conducted in a manner detrimental to the interests of the depositors and by the second one to require those incorporated under the Indian Companies Act, to obtain the RBI's sanction for opening of a new branch.[101] The purpose of these measures was stated to be "to weed out the unsound units and generally to ensure the proper management and conduct of the affairs of the banks.[102]

The crisis which Indian banking experienced during 1946-49 in terms of many runs on banks, bank failures and suspension of enforcement of the interim control measures and the problems which arose in the wake of partition, etc. brought out certain dilemmas faced in the process of

ensuring a regulated functioning of the commercial banks. The descheduling of the banks, or ordering bank inspection, "gave another jolt to public confidence and resulted in steady withdrawals of deposits, including time-deposits, particularly from the smaller Bengali scheduled banks."[103]

The difficulty arose from the fact that inspection of banks was not a routine affairs; it was ordered only when a need seemed to arise for it. The moment such an assessment of a bank by the authorities becomes known to the public, they would suspect the safety of their deposits to be in danger. But in the absence of a regular and general provision for inspecting banks, an inspection becomes an indicator, prima facie, of something being amiss somewhere and the consequent counter results. Such experience and the persistence of banking practices like "the tendency to open an excessively large number of branches and to grant loans without security,"[104] acting like loan companies rather than banks, made the enactment of a comprehensive banking legislation urgent and with the settling down of conditions, it became possible in 1949 to enact the Banking Companies Act, 1949.[105]

With the nationalisation of the RBI in 1948, it became possible to entrust it with, among other things, control of banking to serve socio-economic ends determined by the

government. Since the business interests were fairly well-represented on the central and local Board's of the RBI, they continued to have a hand in shaping the monetary, credit and banking policies of the country.

The Banking Regulation Act, 1949 was drafted along the lines suggested by the RBI. But the Select Committee of the Assembly made many important changes and additions. Important among these were removal of ceiling on dividend as was proposed in the Bill at 9 percent,[106] restoration of the percentage of a bank's shareholding in another company to a maximum of 40 percent (a move which went to strengthen the link-up between those who controlled banks and those who controlled industries and thus worked towards greater centralisation in the economy), right to exempt banks from the provisions of the law, right to RBI to give directions to banks regarding credit policy and appointment of the RBI as official liquidator of banks. Some of these provisions were not contained in the abortive banking legislation during the British period in 1944-45. The guiding principle of the law remained protection of depositors and development of banking; pleas for using banking control" as a corollary to Government's monetary policy" was beginning to receive attention.[107] However, integration of banking control with overall economic policy and planning, as we discuss below, was still a far cry.

The 1949 Act enabled the RBI to really act as bankers' bank and ended diarchic control over banking in so far as the company law authorities were dissociated from banks. The Act gave the RBI in consultation with or, under direction from, the government, a large number of regulatory, supervisory and directing powers for setting up, working, operation and liquidation of banks, capable of maintaining healthy banking structure and practices. These provisions related to licensing, regular inspection, minimum paid-up capital and reserves, prohibition of common directors, transfer of a part of profits to reserves, maintenance of minimum cash reserves and liquidity ratios, control over branch expansion, restriction on the nature of subsidiary companies, control over loans and advances, submission of accounts and returns, prohibition of trading, audit, power to publish information, RBI's right to give directives, power of RBI to remove managerial and other personnel, suspension and winding up of business, arrangements for mergers and amalgamations and penal provisions.[108]

Banking being a Union subject in the Indian constitution, the Union government (Finance Ministry) and the RBI were the agencies who were entrusted with the responsibility of carrying out regulation of banking companies. The powers conferred under the Act for control, regulation and

supervision of banks were really formidable which touched the core of the functioning of banking - an important component of the financial sector - in India.

Even without looking at the actual operation of the 1949 regulations, the nature and content of these regulations bring out that the rules, norms, procedures and restrictions legislated by it were more suitable for the larger banks. The RBI, which played a crucial role in proposing the provisions of the Act, had a good representation of larger industrialists, connected with some of the larger banks,[109] who valued the autonomy and independence of the RBI, as they had a share in it and wanted to use it as an instrument of banking policy which may further their interests. It has been pointed out that the standards for satisfactory working of banks were derived from the position obtaining in the larger banks and certain standards were made somewhat more rigorous for the smaller banks.[110]

The provisions concerning licensing, minimum paid-up capital, reserves, etc. worked against the smaller banks, to the extent of even forcing many of them out of the business. Many suggestions had been made to impart greater viability to the smaller banks.[111] Quoting the Minority Report of the Central Banking Committee, it was suggested that "the

establishment of small local banks will be facilitated, if large banks, and especially the RBI, provided them with the required stimulus and guidance in the spirit of a foster mother, and a portion of the staff. Some of them may even find it useful to take-up shares in the local banks,[112] as this may help them to secure advantageous local connections."[113] Furthermore, many of the facilities given to the cooperative banks could have been extended to the smaller banks, as the socio-economic justification for the two types of banks was quite similar. Discarding all such suggestions and except for prevention of inter-locking of directorates of banks, which would have placed the control over the larger banks in still fewer hands, the 1949 Act made such choices as would tend to operate against the survival of the smaller banks. The subsequent history of the development of banking in fact saw a sharp reduction in the number of banks as either the smaller banks just went under or were amalgamated or merged with the larger banks.[114]

Banking regulation was placed on a systematic footing with the 1949 Act. One can say that the period of ad-hoc interventions was over and a period of systematic banking policy began. This transition took place not because a comprehensive law came into force; the act only symbolised the change in the objectives of banking regulation from

control of banking _qua_ banking, to introduction of banking control from the point of view of the general economic management, particularly from the point of view of the extended reproduction of the economy.

True, safe-guarding bank depositors interest was the prime goal, but this necessitated steps "to strengthen the banking structure of the country, to modify the existing law relating to amalgamation of banks to facilitate quicker amalgamation between banks."[115] Changes of a far-reaching nature in banking structure particularly with their bias against the smaller banks, as we see below, brought about a significant change in the size and allocation of bank credit and deployment of savings in the economy. The period of such a change in the orientation of banking policy was inaugurated by the Banking Regulation Act, 1949. Obviously, experience with its administration and emergent problems in banking and the economy necessitated a series of amendments, which sharpened the thrust of regulation not only in the initially chosen direction, but in several other directions. (See Appendix I, summarising major banking laws and other regulations during 1946-1970).

That protection of depositors' interest continued to remain a major concern can be seen from the large number of provisions incorporated through various amendments to the

1949 Act for facilitating liquidations, granting moratorium, for amalgamation of weaker banks with a stronger one, to begin with voluntarily and after 1961 even compulsarily, for raising minimum paid-up capital, for transferring a part of banks profits to reserves, to reduce voting rights vested in individual share-holders, for professionalisation of bank management and by setting up the Deposit Insurance Corporation in 1962.[116] Out of a total of 20 laws enacted between 1946 and 1968, as many as 13 were designed to contribute in one way or another to the protection of the depositors' money by fostering healthy banking practices. Continued bank failures upto 1960 and liquidations of banks in a good numbers for a much longer time kept the depositors' protection a live issue[117] with the authorities controlling banking in India.

In the course of carrying out these regulations, certain other objectives also emerged, as a result of national level development efforts through economic planning undertaken by the government and the acceptance of the 'socialistic pattern' resolution by the Parliament in 1954.[118] One set of objectives emanating from these developments related to the needs of a developing economy. For one thing, the need for money supply was expected to increase with the expected increase in the volume of transactions. Second, mobilisation of savings in order to supply increased credit

needs required expansion of credit institutions. Third, regulation of overall credit and "somewhat negative regulation of flow of bank credit", particularly under the "normal incentives of private banking" which creates in credit allocation by them a "bias in favour of sections of the population who are familiar with the use of cheques and will enable a reasonably high proportion of loans and advances to be maintained on the same cash base" and thus allow a more profitable ratio between cash balances and advances, were not conducive to development banking "more and more in the light of priorities for development indicated in the Plan and less and less in terms of returns on capital."[119]

Thus there arose a need for a qualitatively different regulation of private banking on the basis of development priorities. Several changes in regulations and introduction of new lines of regulation, like setting up of the SBI for strengthening rural credit, authorisation of the SBI to provide medium-term credit to industries and to subscribe to the capital of notified refinance corporations and hire purchase companies, etc.[120] and introduction of credit control for allocation of credit in conformity with plan priorities,[121] marked a realisation that "in a developing economy, the promotional aspects of central banking is just

as important as the regulatory aspect".[122] The SBI led nucleus of public sector banks were the main means for the pursuit of promotional aspects and the private banks were regulated for preventive purposes, which the First Plan referred to as "somewhat negative regulation of flow of credit."[123]

Specific schemes for extending financial support to small-scale industries and other priority sectors, a programme of opening new branches of banks, on the basis of a list of unbanked areas prepared by the RBI, introduction of Bill Market scheme in January 1952 and constant efforts for improving remittance facilities, strengthening of cooperative banks, etc. were some important development-oriented steps.[124] In 1961, the RBI found representation on the IADP co-ordination committees at district levels.[125] The number of branches of scheduled and non-scheduled banks increased to 5100 by 1961 from 970 in 1937.[126] It is not our point that the banks succeeded markedly in acting as agent of development; the point is that compared to pre-1949 orientation of banking regulation, promotional and development aspects acquired a distinct place in the objectives of overall banking policy, for which some new instruments in the form of the SBI and its subsidiaries were forged. Initially there was official opposition to the take-over of

the Imperial Bank, even after the acceptance in principle of the policy of nationalising the IBI, during 1949-50, the government came out with the view that this nationalisation was "not in the best economic interests of the country."[127] The need to pursue development objectives may well have played a part in accepting the recommendation of the Committee of Direction of All-India Rural Credit Survey in 1954 for converting the IBI into the SBI.

Another objective seemed to emerge concerning the ownership and control structure of the private banks. The Banking companies (Amendment) Act, 1956 attempted to prevent the misuse of voting rights through concentration of shareholdings in a few hands - a trait, we have seen above, Indian banking displayed liberally. The RBI was given wider powers of control and supervision concerning the administration of banks, like right to appoint observers on the Boards of the banks, imposition of restriction on the terms of appointment of directors and chief executives of banks, etc. (See AppendixI). Thus, ostensible recognition of and some legislative response to narrow control pyromid of banking made its appearance in the evolving banking policy-matrix.

However, neither the diffusion of control objective was forcefully recognised, nor the effect of other banking regulations on faster growth of the larger banks controlled

by leaders of industry was taken into account. For instance, the raising of paid-up capital, building up of reserves on the basis of transfer of a part of banking profits, simplification of the procedure for voluntary amalgamation of banks, which facilitated the merger of the smaller banks with the larger ones, relaxation of rules regarding reserves and payment of dividends, expenditious winding up procedures, even at the initiative of the RBI, were provisions (as listed in the Appendix) which consolidated the banking structure by increasing the weightage of the larger banks. In 1961, the RBI was authorised to proceed with compulsory amalgamation of banks under Section 45 of the Banking Regulation Act. Even voluntary amalgamation at the initiative of the banks themselves were proceeding apace.[128] The extent of growing inter-locking of the directorships of banking and non-banking companies was highlighted by studies made around early sixties.[129]

We find that in 1962, bank advances to concerns in which the directors of the banks concerned are interested, accounted for Rs.148 crores, i.e. 12 percent of the advances given by all banks; for the top 15 banks, the figure became 14.1 percent.[130] Since such a control pattern tends to lead to pre-emption of credit in favour of the interests controlling the banks, a certain degree of lack of correspondence between credit allocation in terms of plan

priorities and the actual pattern was likely to arise. For example, while industry and commerce received nearly 80 percent of bank credit, the share of agriculture was as little as 3.1 percent.[131] Similarly, bulk of the credit went to larger account-holders located in some regions only,[132] thus the plan-objectives of promoting small-scale, decentralised industries, agriculture, exports, etc. failed to derive support from the credit policies of the banks.

These institutional, organisational features of banking and their impact tended to arouse some concern by way of attempts to prevent the interests controlling banks from some grosser forms of misuse and further enhancement of such control. The committee on Distribution of Income and Levels of Living was strongly in favour of "the thesis that there is an intimate relation between the growth of big banks and the growth of big business in the country during the plan periods, "i.e., upto the second plan.[133] Hence the Banking Laws (miscellaneous provisions) Act, 1963 attempted to restrain control exercised by particular groups over the affairs of the banks particularly by way of restricting loans and advances given by banks to concerns controlled by the directors of banks and empower the RBI to have a say in appointments and removal of executive personnel. In order to bring about diffusion of share-ownership and control, the maximum voting rights of individual shareholders were

reduced from 5 percent to one percent of the total voting rights. (See AppendixI). In 1965, the Credit Authorisation Scheme was introduced which required the banks to secure prior approval of the RBI for granting any fresh credit limits of Rs. one crore or more to any single party, or for bringing an existing limit to this level.

For ensuring credit allocation consistent with plan-priorities and for more effective mobilisation savings National Credit Council (NCC) was set-up in December 1967.[134] It was to assess the demand for bank credit from various sectors,[135] determine priorities for loans, keeping in view the needs of the priority sectors, like agriculture, small scale industries and exports and to co-ordinate the lending and investment policy of various banks.[136]

Since the institutional complex could not be influenced in a marked manner with the help of the changes in banking laws introduced so far, certain far-reaching changes aimed at greater professionalisation and greater representation to neglected sectors in bank managements were introduced in banking laws. The purpose apparently was to weaken the link between large industrial houses and the large banks. The Banking Laws (Amendment) Act, 1968, moved in the direction of ensuring 51 percent representation for professional bankers and specialists in rural economy, agriculture, small industries, cooperation, economists and financial experts on the boards of

the banks. The directors were precluded from having substantial interests in large and medium industries.[137] Similarly, constitution of advisory boards were introduced for the foreign banks.[138]

The amended law prohibited new secured and unsecured loans and advances by the banks to their directors, though subsidiaries of banks were exempted from this provision. To give greater teeth to the measure, the government was empowered to take-over, on payment of compensation, those banks which fail more than once to comply with the directives under Section 21 relating to advances and directives under Section 35A regarding broader policy issues.[139] These powers, initially restricted to banks with deposits exceeding Rs.25 crores each were gradually extended to cover all the banks. The express enabling provision to take-over defaulting banks was also generalised. It was provided that "if in addition, the acquisition of the bank is considered necessary in the interests of the depositors, or in the public interest or in the interest of banking policy" the government may take-over a bank.[140] However, it was proposed that such a take-over would be affected after giving a reasonable opportunity to the bank to show cause against the proposed action.[141] The totality of these measures came to be known as social control over banking, which was announced in December, 1967.[142] Before we come to an analysis of social control, it may be worthwhile to examine the logic and

working of the controls exercised prior to the introduction of the former.

Inspections and consequential suggestions of corrective action, alongwith licensing of banks as also of branches were regularly in force to regulate and consolidate banking structure. Licensing and other statutory obligations tended to introduce a certain degree of rigour in the setting up and functioning of banks. A number of exemptions with respect to licensing provisions and other obligations were granted, as late as upto 1959, "in order to mitigate difficulties experienced by banks."[143] Apparently, discretionary relaxation in the implementation of the banking laws could not have contributed to the realisation of the objectives for which the laws were enacted. However, the inspections were stepped upto ensure that all banks were inspected annually.[144]

Certain structural changes in banking were evident on account of gradual weeding out of the small and non-viable banks and the rapid growth of deposits alongwith changes in the sectoral composition of bank credit. It was observed that vigorous expansion of deposits and credits in the wake of the first two plan, was accompanied by a changed pattern of distribution of credit with growing participation in industrial finance by means of term-lending and underwriting of shares.[145] Alongwith this, the ratio of capital funds to deposits declined significantly. Thus it became essential to safeguard the soundness of the banking system to raise the requirements both with regard to reserves and liquid assets, particularly in view

of the anticipated decline in both these ratios during the subsequent plans. Another need which was accepted by the planners was that all the financial institutions should ensure that their support goes to new entrants to industry and to medium and small enterprises.[146] In fact, the Third Plan document went on to say that "the SBI as well as other commercial banks may be expected to play an increasing part in financing medium-sized, small and cooperative industries.[147]

But concurrently with these policy enunciations was pursued a vigorous policy of mergers, amalgamations and strengthening of the banking structure. Many legal provisions were in existence in order to enable the smaller banks to merge themselves with some larger well-managed banks.[148] Between 1960 and 1965, the number of banks coming together was 188,[149] which increased to 208 by June, 1969.[150] There was a slow-down in such mergers after 1965 as most of the weak units had been dealt with by them.[151] In order to facilitate the winding up of the weaker banks, they were granted a moratorium so that the assets of the bank are conserved in the interests of the the depositors and there is a continuity of business. Thus by doing away with the need for liquidations, mergers were facilitated and the depositors' interests were protected.[152]

The simultaneous pursuit of the objective of strengthening the banking structure by bringing about mergers of the weaker

banks with well-managed banks in both public and private sectors, though mainly with the latter, and weakening the link between the management of the banks and controllers of corporate industrial sector gave rise to some controdictory pulls. The weeding out of the smaller, mainly non-scheduled banks helped the growth - both in absolute and relative terms - of the larger banks with strong association with the larger industrial houses. So much so that the share of the non-scheduled banks in deposits declined from 7.3 percent to 0.4 percent and in advances from 8.6 percent to 0.3 percent between 1950 and 1969.[153] But the non-scheduled banks accounted for a relatively larger share, (nearly two-third) of the borrowal accounts.[154] As a result of the elimination of the smaller banks, the number of borrowal accounts during 1961-1967 came down by 22 thousand; while the number of agriculturalists' personal and traders' accounts were reduced by 30 thousand, 102 thousand and 21 thousand respectively, the number of industrial borrowal accounts increased by 27 thousand.[155] Apparently, with the larger banks, the access to credit for the smaller firms and persons with limited means was reduced. The reduction in the number of borrowal accounts cut out in the main the smaller account holders, as was indicated by the weightage enjoyed by borrowal accounts in higher value ranges. Less organised sectors also experienced a fall in their share of bank credit.

After mergers, the larger banks grew very rapidly.[156] Expansion of branches was also mainly by the larger banks, to a certain extent owing to the policy of linking up capital requirements with the territorial range of a bank's sphere of operations. Then, the experience of failure of the smaller banks made the authorities reluctant to licence new branches by the smaller banks.[157] This policy led to branch expansion by the larger banks who, for one thing, did not understand local conditions and credit-worthiness of the smaller clients in the same way as the smaller banks did. Moreover, the larger banks were under the control of the big industrial houses, who liked to use the far-flung branches mainly as deposit collection centres.[158] As a result, in 1966, about 57 percent of deposits and 71.5 percent of the bank credits were accounted for by 18 large cities; 4 big cities alone took over 60 percent of the bank credit.[159]

In this way, elimination of smaller banks tended to make Indian banking oligarchic, which became so structured as to reduce credit flows to relatively little organised sectors and to businessmen and firms of small means. In fact, a good part of bank credit went to the firms controlled by the directors of the banks,[160] who were generally associated with large industries.[161] The conflict

between regulatory and development or promotional aspects of banking policy arose from the differences in the perspectives underlying the two. Unregulated banking led to proliferation of small and non-viable banks, which covered far-flung areas, small-towns and relatively small firms and businessmen.[162] However, the banking practices adopted by the smaller banks and their small and tiny size made the banks non-viable, endangering the safety of the clients' deposits. With shaky confidence in the safety of the funds placed with the banks, not only the growth of banking habit is checkmated, but even the capacity of the banks to create credit is circumscribed. Many regulatory and supervisory steps were, therefore, initiated to protect the interests of the depositors. Based on conventional norms of sound banking, these regulations tended to eliminate the smaller banks, as was witnessed with a certain pointed acuteness during the 1961-65 phase of consolidation of Indian banking structure.

The success in the regulatory sphere caused problems in the promotional and socio-economic development field, as the smaller banks were catering to the needs of small-sized economic activities in a regionally dispersed manner. The option of strengthening the smaller banks by a mix of regulatory and promotional measures was not even tried. The larger banks, with their narrowly-vested control, helped

by some policy measures against non-viable banks became a handmaid to add and abate the processes of centralisation and concentration, sectorally, regionally and class-wise, which were deriving support from some other forces sometimes far more critical than that provided by narrow control base of commercial banks.[163] It might have been an indirect but inevitable consequence of the banking policies which were viewed operationally neither as a part of the existing institutional pattern of the economy, nor as capable of generating countervailing forces within the banking sphere.

The factor responsible for such disfunctional outcomes was seen to be the ownership and control structure of the banks. A section of public and expert opinion saw a solution in doing away with private control over banking,[164] a demand which was made many times in the Central Legislative Assembly and various fora of the Congress Party.[165] On the contrary, official thinking veered round to introduction of various legal prohibitions and limitations and administrative fiats under a consultative framework of the National Credit Council for correcting the consequences produced by the structure of banking business - a structure which owed itself partly and, may be without conscious and express intetions, to earlier banking policies.

The thinking apparently was that it would be possible to secure the social objectives without assuming direct ownership and control. Moreover, nationalisation of banks was not considered feasible because according to the official view "the acquisition of banks would severely strain the administrative resources of the government."[166]

As we saw in the preceding, various legal and administrative steps were taken, (which in their totality were given the name of social control over banking) in order to mitigate the consequences of the narrowly-vested control over banking and in order to bring about a positive thrust contributing to overall development through appropriate financial intermediation role of banking under legal restraints and stipulations and administrative fiats. The reconstitution of the Boards of the banks, appointment of full-time professional banker as chairmen, restrictions on persons with interests in large and medium industries to be on the Boards, restrictions on grant of new loans or advances to directors and members of advisory boards of banks in which they were interested constituted the kernel of social control.[167] The National Credit Council was to be the instrument for credit planning in all its aspects,[168] particularly in order to increase the share of bank credit going to the priority

sectors and more effective mobilisation of savings.[169] The purpose of the scheme was to secure "a better alignment of the banking system with the needs of economic planning".[170] Initially, the scheme was confined to banks with deposit exceeding Rs. 25 crores and was later on to be extended to cover all banks.[171] The essential point of the scheme was that by "appropriate guidelines for bank management"[172] under threat of take-over for defaults, public purpose could be achieved without public ownership.

Some of the banks reconstituted their Boards even before the amending Act came into force. However, under the provisions of the Act, banks with depositos of less than Rs. 10 crores were exempted from the requirement of re-constitution of their Boards and banks with deposits of less than Rs. 25 crores were exempted from the requirement of appointment of wholetime professional chairmen until February 1970. Another relaxation was granted with respect to restrictions applicable to a bank's loans and advances to the controlling interests of the bank by excluding loans and advances against government securities, life insurance policies or fixed deposits and loans and advances to the Agricultural Finance Corporation Ltd. This Corporation was setup in 1968 as a joint venture by leading commercial banks for financing priority agricultural projects. This

was in response to a representation received from the bank management.[173] In fact, the law provided that the RBI can define "loans and advances" for purposes of prohibition of lending to directors and concerns in which they are interested (excepting subsidiaries of banking companies, government companies and non-profit making companies) in order to prevent "genuine operational difficulties".[174]

It is clear that a number of caveats were incorporated in the scheme of social control, which made it a weak instrument. The government armed itself with powers to allow relaxations. The crucial provisions concerning the limits and prohibitions on lending by the banks in which its executives and directors were interested was weakened by exemptions with respect to category of firms and the very concept of loans and advances. Then, in its implementation, relaxations were granted to certain categories of banks from carrying out certain planks of the social control scheme. In fact, the Act itself provided for powers to grant such relaxations. Thus it may be inferred that the political resolve to free the banks from private control exercised by a tiny minority for furthering its interest was not very firm. The scheme seemed to fulfil, atleast partly, the purpose of warding off nationalisation, atleast for the time being.

The scheme was not based on a thorough review of the experience of bank regulation, which was in force under a comprehensive enactment since 1949 and, through various devices was carried on by the RBI since its inception in 1935. In fact, the manner in which bank-regulation for protecting the interests of the depositors was working against a socially desirable banking structure (free of excessive control by the large industrial houses) and consequently was unable to provide financial intermediation for agriculture, small-scale industries, new and upcoming entrepreneurs in remote and relatively more underdeveloped regions did not appear to be clear to the policy-makers. Any scheme of changing, modifying and further strengthening of the mechanism of indirect, legal-administrative controls ought to have been based on a critical examination of the interface between bank regulation and the working of the economic system under national level planning for economic development.

The manner in which the National Credit Council (NCC) functioned provides some basis for examining the potential and reality of bringing about credit planning consistent with overall national planning. The first meeting set up a standing committee under the Chairmanship of the Governor of the RBI to study problems relating to credit planning. Its

major finding was to step up bank financing of agriculture and small-scale industries.[175] The Chairman of the NCC, the Finance Minister, stressed the need for greater resource mobilisation for the organised banking system. He also pleaded for meeting the credit gap without creating credit gaps elsewhere.[176] Apparently, without diverting bank credit from existing users, an attempt was recommended for greater capacity to create credit to meet the needs of hitherto neglected sectors.

The second meeting of the NCC set up five study groups to examine long-term issues. In the next meeting held in March 1969 reports of two study-groups on deposit mobilisation and credit facilities for road transport operators were considered.[177] Given the declared intention that the social control package consisted of "short-term measures" to achieve reorientation of the outlook for the banking system,[178] the exemption and study-groups based implementation of the scheme could not easily be considered conducive to furthering its stated objectives.

Legal-administrative, indirect controls over business behaviour is not new and unique in any modern, market economy. India has a vast network of such controls. Obviously, all such control is State control, and in a liberal a democratic framework, based on liberal views of

State and democracy, is expected to be 'social' control. What was done concerning banking was nothing new and unique; only some strengthening and unified codification was attempted; its implementation too did not show any urgency or cohesive purposefulness. For instance, reduction of the share of bank credit going to large industrial groups with controlling interest in bank managements was a crucial element of the social control scheme. The purpose was expressed in terms of reducing the share of each bank's credit going to industries associated with the former. In fact, the publicly stated objective that in the process of meeting credit gaps, new credit gaps were not to be created (as seen above) implied that the existing industries were not meant to be deprived of the credit limits they were accustomed to. How to reconcile the two apparently contradictory measures? The way out was found in a manner which seemed to imply that the share of credit of each individual bank going to its controlling interests was to be reduced, without, of course, entailing any reduction in the overall volume of credit from the banking system as a whole to these large industrial groups who controlled banks.

Thus, what was done to meet the legal requirements was that over a period of one year, the banks made arrangements

to transfer the credits given to their controlling interests to each other; bank 'A' accomodated the directors of 'B' and so on till each bank de-linked its credit from the firms associated with its directors. For this purpose, under the Credit Authorisation Scheme, 1965, the banks obtained permission from the RBI in order to affect such an orderly transition, which meant no substantive change in overall pattern of credit allocation.[179] It has been observed that "The restraints on advances to directors and their interested concerns was found to be capable of evasion by mutual adjustment."[180] This is only partially true, because the 'mutual adjustment', sanctioned by the RBI, could not be considered "evasion" and the policy statement concerning the need not to create new credit gaps where there exist none presently, implied that nothing different was likely to have been the intention in the official mind. The cosmetic nature of the change seemed to be inherent in the situation. The targets, given by the NCC for lending to agriculture were also met cosmetically, instead of reaching credit directly to the agriculturists, various public and institutional agencies concerned with agriculture were granted credit for meeting the targets.[181] We have already seen how either the Boards were reconstituted even before the social control legislation came into force or were permitted to

post-pone it until February 1970. Moreover, so long as a good part of the shareholding was concentrated in a few hands, along with widespread, diffused shareholding of banks, the 'professionals' nominated on the Boards could not be expected to be free of or neutral with respect to, those who nominated them[182]. It was argued that "Given the existing ownership and management structure, there were certainly many ways by which the nature of their transactions could be concealed by the banks and their regulations and directions, observed more in form than in content. Consequently, as in the case of administrative controls in other fields, the limitations of "social control" without nationalisation have become obvious in the limited period that it has been in operation[183]. There appears to be ample justification, therefore, for the manner in which the discussion at a conclave of the ruling Party was summed up as "while nationalisation of banks without social controls would be a fraud, social control without nationalisation was meaningless."[184] As we see below, in view of the emerging needs of agricultural credit in the wake of the introduction of HYV-seeds based strategy of agricultural growth, called 'green-revolution', the scheme of social control did not appear to equal the task of deposit mobilisation and credit allocation to priority sectors.

At this stage, it may be pertinent to ask a question regarding the capabilities of direct public ownership and control as an instrument for attaining the goals for which the scheme of social control over banking was devised. In the context of Indian banking, the SBI represented an experiment with public sector banking which being the single largest group, could well be expected to contribute to social objectives. The limitations of indirect controls suggest a potential which may be reaped with the aid of direct ownership and control; though shortcomings of indirect controls do not *ipso facto* become the merits of direct control and ownership.[185] However, many other factors intervene to determine the actual outcome, important among them being the character of the State and the policies and management practices followed by the unit brought under public ownership. The working of the SBI and its affiliates provides a basis for seeing whether direct ownership helps in steering banking policies in the direction of stated objectives.[186]

The SBI achieved notable successes in branch expansion.[187] Similar was its record of collecting deposits. Even in matters of allocation of credit to the priority sectors, it fared better them the other scheduled banks.[188] But its performance in terms of delinking bank credit from the firms

and companies in which the bank directors were interested was dismal. In 1962, such companies obtained 26.9 percent of the SBI's advances; the figure remained as high as 23.9 percent in 1966.[189] It was pointed out by the Mahalonobis Committee that the proportion of such advances was the highest for the SBI, which made the committee feel that looking to the composition of the Board of the SBI, with a sizeable representation to large industrial houses, there is really no adequate reason for separating it from other joint-stock banks.[190] Thus, what one saw with respect to the experience with the SBI was that while it went some creditable distance in extending banking to unbanked areas and in improving the share of those sectors which had relatively poor access to bank credit, it fared very poorly in de-linking and de-concentration objectives. While absence of direct ownership and control, as in the case of the scheme of social control, may reduce the effectiveness of public policy in realising its announced objectives, there may well be some other, more pervasive factors which may limit the effectiveness of direct control and ownership of a particular sector or undertaking, in attaining those objectives which may not be squaring so well with the inherent thrust of broader politico-economic factors.

In its essence, the issue of sectoral, regional, inter-class or group allocation of bank credit is an issue concerned with relative access to an important intermediate, financial input. If it were subject to the allocative rules of a perfectly competitive market variety, the allocation of credit would have followed a course similar to any commodity distributed by the market. But certain features of the commodity called credit (like its direct command over other commodities, i.e., its near-money character, its fungibility), and some organisational features of the business of banking (its oligarchic structure, combination of oligopoly with oligopsony) along with the basic features of the Indian economy like growing industrial concentration and differentiation, make the allocation of credit less of a problem of allocation of a commodity in a market and more of a problem of access.[191]

Unlike most commodities, obtaining credit is not related to availability of and willingness to spend a certain amount of disposable income. A borrower from a bank has not only to pay the price, but has also to repay the loan, (because what a bank transfers for a period of time to its clients are basically others' resources temporarily held by it) and has to demonstrate, <u>to the satisfaction of the bank,</u>

the capacity to repay. In allocation of such a commodity as command over the economy's stock and flows of commodities, then, the market allocative mechanism, based on the capacity and willingness to pay the price, can hardly function. The problem is, therefore, not of 'sale' of credit, but of granting/obtaining access to credit. The issues involved become complicated because the relations between the banks and its potential borrowers are market relations, but the usual market allocative rules do not operate in this field. Organisational connections,(links between clients and institutions), influence, loyalty, assessment of credit-worthiness, assessment of the effects of credit allocation to a client on business environment and prospects and the bankers' own other economic interests, etc., are some of the factors which play a part in determining access to bank credit. These factors are influenced in a very critical way by the ownership and control pattern of banks. Therefore, the scheme of social control which did not touch the ownership of banks, could not significantly influence the access to bank credit. On the other hand, the SBI, with its majority public ownership, but with continued significant direct representation in management to business groups similar to those controlling private banks, also could not

delink credit to any appreciable extent from the large, industrial borrowers.[192] The policy of restructuring the ownership of bank and management and policy making after the take-over of the IBI did not give adequate and clear-cut attention to the factors determining access to bank credit from the point of relating credit policy of banks to macro-economic and social issues.

Thus, the limitations of the policy of having one large bank under direct public ownership and subjecting the other banks to some indirect controls and direct commands under the scheme of 'social control' of banking became manifest, soon after the scheme was introduced in 1967. However, at the official level, there was hardly any sign of such a realisation. A Bank Commission was appointed for a comprehensive review of banking and the All-India Rural Credit Review Committee too did not consider any radical reorganisation of banking essential.[193] The process of understanding why the policy-makers went in for a choice in favour of nationalisation of major banks in mid- 1969, therefore, requires an examination of the factors which might have influenced decision-making in this respect.

IV

A good deal of writings are available discussing the pros and cons of bank nationalisation.[194] Whatever the value of such writings when the issue of bank nationalisation was a live, controversial issue, it can throw only a limited light on the factors which are likely to have influenced the decision to nationalise the major banks. Apparently, the main value of such writings was in influencing public opinion and thus have an indirect bearing on the government's decision. Our hypothesis is that, apart from directly (or, as some might say, purely) political and ideological factors, which are related to the broader, macro-level political-economy, there are in operation, at two levels, a certain combination of factors which clinch a moot issue like that of nationalisation of bank.[195] First, the experience of regulating banks through a large array of devices, as discussed above, showed some persistent, intractable problems. This alone might not be considered sufficient to drive the authorities to undertake nationalisation. Similar experience of indirect regulation alongwith limited entry of public sector can be seen in many other cases like those of jute, sugar and textile industries. Additional and fairly decisive force is derived for such a decision from some important macro

economic compulsions. Given the two, the timing, sweep and form of the decision may also be related to some specific political factors. Many have argued a great role of the latter (political) factors in connection with bank nationalisation, many times without much regard to other factors.[196] In view of the powerful role played by some macro economic factors, as discussed below, one is constrained to consider the role of dramatised, so-called purely political factors as overblown and one-sided.

During the period immediately preceding the tak-over of major banks, the Indian economy was witnessing a development of far-reaching importance in the form of introduction of the new agricultural strategy, which came to be popularly known as the green revolution strategy.[197] The new strategy initiated in the year 1965 was based on the emergence of new fertiliser-responsive high-yielding varieties of seeds which can promote a sequence of short-duration crops in areas of assured water-supply, provided adequate economic incentives and support facilities were made available.[198] Implementation of this strategy of increasing agricultural production, mainly of those crops for which exotic and hybrid varieties of seeds were available, required the State to plan for the production, import, distribution and adoption of new purchased inputs by the cultivators. This, in turn, required

the cultivators in areas with assured water supply and sufficient resources (scale-neutrality of the technology but not neutrality with regard to command over resources), to increase their levels of investment for production and investment programmes. It is on account of the need for a greater ability to mobilise the requisite finances for adopting the new technology that this strategy came to be known as one of "betting on the strong"[199] and which had to introduce an incentive price policy for agricultural commodities. The financial allocations for the programme on public account had to be increased vastly as the state had to ensure availability of new inputs in the economy (chemical fertilisers, HYV seeds, pesticides, pumping sets, electricity and diesel, electricity and diesel, marketing facilities including warehousing and transport, research and extension etc.) by undertaking specific, direct responsibilities in these matters.[200] In a bid to popularise the new package of farm practices, the State undertook to subsidise the supply of various inputs.

The financial resource mobilisation implications of the agricultural strategy were two-fold: financing governmental outlays and providing finance to the cultivators. The earlier agricultural programmes under the community development and infrastructural investments did not make a

comparable demand on public outlays. Setting up of capacities for fertilisers, pesticides, seeds multiplication, power generation, production of electric and diesel pump-sets, etc. required large public investments. In view of the allocation of roles in terms of the industrial policy resolution 1956, these investments generally become the responsibility of the State. Rather low inter-sectoral backward linkages of the earlier strategy for agricultural growth with limited need for purchased current material inputs, absence of any explicit bias in favour of larger resource-commanding cultivators for providing the props of the community development based strategy and the absence of any need for changing the organisational framework of farming away from small peasant farming to capitalist farming, (except for some efforts to propagate voluntary joint co-operative farming as a preferred form) did not lead to a sharp and dramatic increase in the financial requirements as well as the borrowing capacity of the cultivators.

With adoption of the new agricultural strategy, the need for purchasing current material inputs, greater farm level investments like those in minor irrigation and land improvement, greater potential for surplus generation leading to more wage-labour based farming and reliance on farm machinery by the cultivators with large land-holdings, marketing of a larger proportion of the farm produce,

greater risks and uncertainties and need for methods of coping with them, were all elements of the new strategy which vastly raised the financial requirements of the cultivators.

The credit need of agriculture were assessed as seen earlier by the National Credit Council and under the social control of banking effort were made to meet the larger credit needs of agriculture during the years of the annual plans (1966-69).[201] However, for the Fourth Plan period, credit needs of the new strategy during were estimated by the All India Rural Credit Review Committee of the RBI. According to it, the short term agricultural credit requirement in the year 1973-74 was going to be of the order of Rs.2,000 crores.[202] It estimated the long-term credit requirement during the Fourth Plan (1969-70 to 1973-74) at Rs.1500 crores.[203]

As the new strategy was to establish itself more firmly and over a wider area, the credit needs were to increase as it was observed that "the dependence on borrowing was somewhat larger in the case of inputs for highy-yielding crops than for total current farm expenditure."[204] As a result "as the area under the programme expands, the demand for credit will tend to increase more than proportionately".[205]

Thus the tasks essential for the success of the Fourth Plan's agricultural programmes included increasing the supply of credit and more to the States which had shown poor progress so far.

According to the Fourth Plan programmes, cooperative short-term and medium-term credit was likely to expand from the then obtaining level of Rs.450 crores per year to Rs.750 crores in the final year of the plan. This left a credit gap of the order of Rs.1250 crores.[206] As the land development banks were expected to provide Rs.100 crores over the plan period, the long-term credit short-fall during the Fourth Plan was likely to be in the region of Rs.500 crores.[207] It was apparent that the role assigned to cooperatives was not sufficient for meeting the credit needs of agriculture under the new strategy. Given the long-standing policy of meeting the credit needs of agriculture increasingly from institutional sources, the credit gaps of the order of Rs.1500 crores annually for current production purposes and Rs.500 crores during the Fourth Plan period for investment purposes pointed towards enhancement of the role of commercial banks in this sphere.

Large-scale entry of commercial banks into agricultural credit, particularly for current production programmes and

investment, was to be a new development. So far the position of banks in such financial intermediation has been rather limited. According to the All India Rural Credit Survey only 0.9 percent of the credit needs of farmers was met by the banks in 1951-52. The non-institutional sources provided 92.7 percent of their credit needs.[208] The survey pointed out the gaps in the credit structure and shortcomings in the functioning of the credit agencies.[209] The position of banks as suppliers of credit to cultivators worsened in 1961-62 to 0.6 percent, as revealed by RBI's All-India Rural Debt and Investment Survey, though owing mainly to the growth of cooperatives, the share of non-institutional sources declined to 81.3 percent.[210]

The entry of SBI and its subsidiaries, though specifically related to the need for supplying credit to agriculture and rural sectors, could not create an instrument for meeting credit gap of the order of Rs.1600 crores annually. Nor could the scheme of social control, as seen earlier turn out to be capable of meeting a task of this magnitude. The position of advances to agriculture by major scheduled commercial banks during 1968 and 1969, as shown in the table VI given below, brings out the size of the quantum jump required of the banks to be able to meet the financial needs of agriculture during the Fourth Plan period.

The share of direct finance to agriculture, it can be seen from Table VI in total bank advances to agriculture was 12.14 and 46.24 percent by the SBI and 19 other major banks respectively in 1968. It changed to 8.22 and 42.77 percent by April 1969. Total agricultural advances continued to remain a relatively small part of total bank advances.[211] In order to enable the SBI and associated banks to make a bigger contribution to rural finance, as seen earlier, a large number of rural and semi-urban branches were opened. Despite these changes, the advances of the banks "continued, till recently, to be oriented to the needs of organised trade, and in an increasing measure, of industry."[212]

In view of the past experience and of the nature of banking in India, a view came to prevail that "the trend of both expert opinion and official policy has been that co-operatives, and not commercial banks, are the appropriate credit agencies for agriculture."[213] The All-India Rural Credit Review Committee, quoting "several expert committees". (like Indian Central Banking Inquiry Committee, 1931, Agricultural Finance Sub-Committee, 1945, Rural Banking Enquiry Committee, 1950, All India Rural Credit Survey 1954, the Informal Group on Institutional Arrangements for Agricultural Credit, 1964) pointed out that "while all of them were agreed that commercial banks had done little to finance agriculture, none of them made a positive suggestion that the commercial banks should enter this field in any large way".[214]

The government policy so far was not to involve the banks for dealing directly with the cultivators. It was stated as late as in December 1968 by the then governor of the RBI that, "Hitherto, for various reasons, commercial banks have not played a significant role in providing agricultural credit. The policy in fact was to encourage cooperatives rather than commercial banks to operate in this sector."[215]

There was nothing new in the indirect relationship between agricultural credit and commercial banks. It was pointed out by the Indian Central Banking Enquiry Committee in 1931 that "commercial banks - occupy a significant place in the financial superstructure that is available to the village moneylender, the indigenous banker and the trader in agricultural produce."[216] This indirect link through higher interest rates in rural area was not capable of meeting the new credit needs. Hence the policy under-went a change around 1968, not only on account of the new scale of agricultural credit needs, but for some other important reasons as well. The organisation of agricultural in India upto mid-sixties which was along subsistence farming on the one end and large, semi-feudal landlords operating their lands extensively through tenancies, on the other end, was not found attractive and amenable to dealing by the commercial

banks. They either did not have adequate surplus or security or lacked incentive to go in for borrowing. The green revolution strategy, coming as it did after Zamindari abolition and large scale resumption of large tracts of land for self-cultivation (Khudkashta), increased productivity and, profitability to a level which gave a great fillip to capitalist farming.[217] Hence, with this "radical transformation of agriculture", "the position has changed completely", so that "the cooperatives alone will not be able to meet this demand". There is a credit gap which has to be filled in "jointly by the cooperatives and the commercial banks.[218]

Thus it appears that the technical and institutional changes in Indian agriculture, giving prominance to commercially and financially viable units with growing surplus (which may be described as strengthening of capitalist farming) paved the way for a larger and increasingly direct role for commercial banking not only for mobilising deposits, but also for providing new lines for safe and profitable lending. The modern, capitalist agriculturists can provide, in addition to the security of land-holdings, the security of the concerned equipment for term lending and their assured, larger yields may underwrite crop loans. In addition to the higher level of credit needs of the cultivators, which argued a case for supplementing the activities of the

cooperatives by those of the banks, the increased viability of a prominent class of cultivators opened up profitable avenues for extending the role of banking.

Additionally, cretain weaknesses of the cooperative institutions in addition to their inability to mobilise resources for lending, as reflected in the low share of owned funds to total loans (1/6 in 1951-52 1/10 in 1965-66) made its essential to explore the possibility of introducing correctives by means of a bolder entry of banks in agricultural finance. For one thing, the small farmers could not obtain a fair deal from the co-operatives. As the AIRCRC said, "the weaker sections of cultivators continue to receive only limited benefit from co-operative credit."[219] Further extension of the new agricultural strategy and the need to overcome some of the imbalances introduced by the new strategy necessitated greater efforts to involve the small farmers, among other things, by means of easy and adequate credit.

Then the spread of cooperatives was very uneven as between various States. While Maharashtra, Tamilnadu, Kerala, Panjab, Gujarat, etc. showed coverage by cooperatives of cultivator households ranging between over 83 percent and 52 percent, for certain other states like Assam, Bihar, Madhya Pradesh; Orissa, Rajasthan, and West Bengal, the

range was between 17 percent to 33 percent.[220] In view of these limitations of the cooperatives, it became necessary to ensure that the banks not only supplement the effort of cooperatives towards bridging the credit gap faced by agriculture, but also cater to the needs of small farmers and neglected regions. Efforts to remedy the weaknesses of the cooperatives did not go very far. The most moderate of such reforms, notably the extension of cooperative agricultural credit based on the credit of the State Bank of India, have met with little success.[221]

What could be expected of the private banks in this direction has to be viewed in the light of a) the experience and proclivities of the banks so far with respect of agricultural credit, b) the changed conditions of agriculture, c) the experience of social control over banking for gearing them towards agriculture to a greater extent commensurate with current needs and d) the emerging pressures on Bank credit from the other, more organised sectors. We have seen that neither the experience nor the proclivities of the private banks could be considered as too favourably disposed towards agricultural finance. The experience of social control did bring in a thaw,[222] but neither its extent nor its form was commensurate with the needs of the new agricultural strategy. As the then

Governor of the RBI pointed out, "much more has to be done on a wider front."[223] This was no easy task either. As the then agricultural Secretary to the Government of India pointed out, "The small farmer is, no doubt, a problem, but this problem cannot be tackled merely by the institutional finance in the country...... It is this persistent question of finance for the non-creditworthy that appears to have frightened the commercial banking sector to some extent and have forced them on the defensive to ask for safeguards".[224] In view of the limitations and disinclination arising from the fright concerning the credit needs of small, non-viable farmers which gripped the private commercial banks, certain policy makers took the view that the commercial banks need not be concerned with "these specialised sectors", like the small farmers but "take agricultural finance for the credit-worthy on a production programme."[225]

In fact, a suggestion was made that commercial banks should concentrate at least in the early stages on opening of branches in and serving HYVP, IADP and other similar areas where the expanding technological possibilities of agriculture had created large demands for financing wich could not be possibly met by the cooperative sector alone.[226] Thus, those who thought that a new and growing relationship (which was to be regarded as a commercial

proposition and not as a social welfare measure[227] is to be established between capitalist farmers and commercial banks for sustaining the new agricultural strategy in its concentrated form, did not consider that "any structural reorganisation of the Indian banking was required to be undertaken merely in the context of agricultural credit."[228] For this purpose "action at appropriate strategic points and suitable adjustments in banking practice"[229] were considered sufficient, without involving a change in the pattern of ownership. It means continuation, further refinement and strengthening of various elements contained in the social control scheme were preferred by a section of opinion and for this purpose they were prepared to sacrifice the objective of taking bank credit to small farmers and to regions poorly served by cooperative, (which happened, by and large, to have adopted to a markedly lesser extent the new strategy of agricultural development). The question whether a change over from private to public sector banking could enable taking bank credit to the small farmers and neglected regions (tasks considered social welfare measures from the point of view of private banking,) was not asked explicitly by these sections of expert opinion.

The inability and lack of interest of commercial banks to go in for extending credit facilities to all categories

of cultivators called for large resources. The industrial sector in India, as seen earlier, had come to depend on and use a large part of commercial bank credit. Any diversion of credit from industry to agriculture would have been both inconsistent with the public policies and against the directions chosen by the banks of their own volition. In any case, the experience of industrial recession and slow-down experienced in mid-sixties[230] heightened the revival and supportive role of bank credit for the sustained growth of industries. It meant that without expanding the credit-base, i.e., deposit mobilisation and increasing overall supply of credit, it would have been difficult to meet the needs of agricultural credit without reducing credit-flows to industry. The established banking-industry relationship, specific credit needs generated by the policies to deal with industrial recession and slow-down and the general powerful position of industrial interests in the Indian political economy, all combined to argue a case for a restructuring of Indian banking.

This restructuring had to be directed towards massive expansion of banking facilities, even when many of the branches may not be, in the short-run and in a conventional micro sense, viable. This would provide a basis for deposit-mobilisation needed for meeting agricultural

credit needs without imposing a cut in the share of industry and trade. As the politico-economic pressures for giving specific attention to the needs of small farmers were accepted in the form of the target-group approach,[231] it became all the more difficult to permit the banks to forge profitable, commercial relationships with viable, surplus-producing farmers alone. This too argued a case for a radical intervention in the ownership and control pattern of the commercial banks. Involvement of the small farmers and agriculturally backward areas in the extension and intensification of new agricultural strategy, required, inter alia, large-scale financial inter-mediation by commercial banks. Owing to private banks' resistence to enter these areas on a really large scale, it became essential either to take-over the banks or to redefine agricultural strategy.

There were various pressures for the take-over of banks from many political parties and groups[232] whose power vis-a-vis the ruling party had increased owing to the end of one party hegemony in 1967.[233] But no less important to the decision to take-over the banks was the inner-party struggle in the ruling Congress Party, following the electoral reverses and the void left by the death of Jawahar Lal Nehru.

The election manifesto of the Congress Party in 1967 included a promise to "bring most of these banking institutions under social control in order to serve the cause of economic growth and fulfil our social purpose more effectively".[234] In the following period, the "unresolved controversies over the direction and pace of social transformation were, moreover, revived in the immediate context of a complex power struggle inside the Congress Party".[235] A "Ten-point Programme" was adopted to speed up social transformation, a condition considered essential for shoring up the fortunes of the Congress. Its first point concerned implementation of social control over the banking institutions".[236] The controversy over the issue of social control versus nationalisation continued, particularly on account of concerted efforts by a section of radical congressmen. At the Jabalpur AICC session in October 1967, there was considerable support for the tak-over of the banks, but there was "the rock-like oppositions of Morarji Desai" Deputy Prime Minister and Finance Minister, to it, whoo succeeded in "winning a commitment from his colleagues to consider bank nationalisation only after social control had been given a fair trial for at least two years."[237]

The Parliament also often heard pleas for take-over of banks and gradually made the government comcede point after point in favour of nationalisation.[238] The political struggle for bank nationalisation continued and surfaced in a prominent manner in the AICC session in April 1969. Though the demand by the members of the Congress Socialist Forum for outright nationalisation of banks, "was supported by several members of the Senior leadership", and "the majority attending the meeting endorsed the recommendation for bank nationalisation" Morarji Desai, once again, adamantly stuck to his earlier position of giving a fair chance to the scheme of social control.[239] This was a period when the Government economic policies had come largely under the sway of Moraji Desai. As we see below, nationalisation of bank, a measure which was anathema to Morarji Desai was used to remove such powers from Morarji Desai.

The group of senior Congressmen, known as syndicate, were involved in an intense power struggle in which moves to change to growth-oriented, private sector-centred policies(which were gradually coming into prominence during 1964-69),was one of their ideological rallying point. The opponents of this group, clustered around the Prime Minister, Indira Gandhi, included a vocal and influential group who stood for policies like that of bank nationalisation.[240] Both the left parties and Congress Socialist Fourm

undertook popular mobilisation on these ideological programmatic issues; their campaigns, tactics and strategy were in some ways co-ordinated.

These controversies erupted again on the occasion of the Bangalore session of the AICC in July 1969. The official economic resolution reiterated known positions, including the Ten-Point Programme. The Socialist Forum group presented an alternative proposal, which demanded immediate nationalisation of private commercial banks and general insurance as a part of amore comprehensive programme of controlling large private corporate sector.[241]

Subsequent power-struggle over the issues of Congress nominee for the Presidentship of the country and perception of lurking conspiracies made the Prime Minister reopen the issue of bank nationalisation. Her note to the working committee, among other things, noted that, "there is a growing feeling in the country regarding the nationalisation of private commercial banks. We had taken a decision at an earlier AICC, but perhaps we may review it, Either we can consider the nationalisation of the top five or six banks or issue directions that the resources of the banks should be reserved to a large extent for public purposes".[242] Subsequent political manouevrings in a great factional fight resulted not only in the nationalisation of 14 major commercial banks but also a major split in the Congress Party.[243] The momentous political significance of the move to take-over the banks was thus visible in its direct and

immediate as well as long-run fall out in the political sphere.

There were, as seen above, objective, economic factors and sustained political compaign for a movement away from what was called 'social control' to nationalisation. The political power struggle and rivalries, far from being causative factors, did play a great role in overcoming the inhibitions of a regime generally not in favour of take-overs, and for which nationalisation formed a minor, last-resort part of their policy and strategic perspective. Concerted political campaign on many a front by various political groupings not favourably disposed towards large, private business played an important role not only in keeping the issue alive and mobilising popular support for it but also at higher policy fora. It is difficult to say if mere objective economic factors could have clinched the issue in favour of nationalisation. Many other sectors/industries could face such a necessity. In overcoming resistance, in the timing and form of the decision, the political struggle came in handy and the forces arrayed in favour of nationalisation made consistent and effective use of the raging power struggle to give it an ideological - programmatic dimension. It would be futile to apportion various orders of significance

to these factors, it was a historic conjunction which in its totality brought about the take-over of the Banks.

Conclusions:

Foregoing analysis brings out how banking in India had intimate direct and indirect connection with State initiatives and interventions of many types from the beginning. In the course of halting and partial emergence of many features of industrialised market economies, banking too could not escape acquiring the imprint of the larger process. This could as well be taken to indicate the passive, non-catalytic role played by the banks. Thus, regional and sectoral spread of banking showed the features of an inadequately integrated economic structure. Under the impact of managing agency system, inter-looking directorships between banking and industrial companies and highly concentrated character of the industrial corporate sector banks came to become a narrowly held preserves of large industrial houses. Its role in the sphere of trade and finance overshadowed that in the sphere of industries and even more sharply in agriculture.

Since the major thrust of public policy regarding banking was to ensure the safety of the depositors' money

public regulation tended to favour larger banks controlled by the industrial houses as against the smaller, regionally dispersed banks capable of catering to the needs of small traders, industrialists and artisans. However, being small they were subject to certain handicaps and prone to tendencies inimical sound banking practices. Owing to unorganised, small-sized and dispersed nature of agricultural activities, private banking tended to ignore it as the profitability and credit-creation possibilities were limited in connection with their dealings with the agricultural sector which had low productivity, and was not given to banking habit. Thus even the expectation that private commercial banks could provide credit to the farm sector directly was not seriously entertained.

A whole range of controls, frequently strengthened through legislative and administrative actions, including mixed banking (i.e., a combination of public sector and private sector banking) neither could match the task of making such additions to the rate of investment and its allocation as could further the targets and tasks arising from various medium-term plans nor could prevent distortions of the process of growth viewed in terms of the plan

objectives, particularly in connection with finance for unorganised and small-scale economic activities. Even the method of issuing direct fiats and direct changes in management and control structures was experimentally tried under what came to be known, following the sub-title of a booklet issued in 1963 by the Indian Banks Association, (A representative organisation of private sector banks) as 'social control' over banking. It neither had an inherent promise, nor did it show promising results.

Meanwhile, two major changes in India's political economy, viz. the changes in development perspective, priorities and policies following the introduction of the green revolution strategy of agricultural growth and a serious power struggle in the congress party following the death of Nehru and Shastri, joined hands to clinch the issue in favour of nationalisation of banks.

The thrust towards acceptance of nationalisation was further strengthened by some subsidiary factors. The limitations of legal and administrative controls appeared in various forms. Generally initiation of a legislative or administrative action was followed by limited success on account of either the weaknesses of the measure in question or discovery of new methods of bypassing the law. Then,

there was a certain inability to anticipate newly emerging relationships between banking and various branches of the economy necessitating new measures of regulation. The piling up of controls and regulations in an incremental manner as belated response and without a consistent, overall framework contributed to reduction of the effectiveness of indirect steering. Such experience of bank regulation tended to present, at least implicitly, nationalisation as a preferred effective option.

To this there was considerable opposition, not only by the interests directly involved but by a powerful segment of political structure to which any nationalisation was an anathema. The socio-economic factors referred to in the form of a big increase in the credit needs and credit-worthiness of a large number of cultivators who needed directly from the banks short-run production credit and the inability of cooperatives to meet the bill, produced pressures for a more active role for the banks. It was very difficult to divert the normally prevalent pressure of demand for credit from the organised large-sized economic units in industry and trade.

Recessionary conditions in industry made the government still more reluctant to curtail bank credit to industry;

in fact, liberal credit is an important element of the policies of revival. Thus, massive deposit mobilisation by going to unbanked areas becomes pressing necessity. All these developments worked towards the acceptance of the nationalisation option. The force of such implicit pressures was heightened by the political campaign for bank nationalisation in which both broad sections of the ruling party and many left parties were engaged in. Given the power struggle in the higher echelons of the Congress Party, bank nationalisation presented itself as one of the decisive moves for turning the tide in one's favour. All the other factors were already pointing to this choice. Hence the take-over of major commercial banks because a reality in mid - 1969.

Takeover of the banks was going to hurt both the short and long-run interests of the larger industrial houses in a manner no other nationalisation attempted so far was likely to. This is in spite of the fact that immediately following the take-over of banks the policy was not to make the large scale industries face any shortage of credit. Further, no injury was expected to be caused to the long-run interests of the large business houses by following a policy of plentiful supply of credit

to the rising class of capitalist and small farmers and other segments of industrial capital. However, loss of direct control over a major source of finance and its replacement by direct determination of credit policy by public agencies were matters of concern in the long-run to the large industrial groups, adding to their uncertainties and costs. The campaign for bank nationalisation and official statements over the rationale of the take-over left little doubt on this score.

Given the above, one cannot escape a question concerning the nature of changes in class and power alignments which could no longer prevent the fulfillment of the long-standing and fairly well articulated demand for take-over of banks. Our analysis makes it clear that one major factor was the emergence of agrestic capatalism by the end of sixties. It generated a good amount of demand for bank credit in rural areas. As a result there emerged alternative foci of power to the sway exercised by large industrial houses. Moreover, the growth of small industries and regional industrial capitalists also contributed to reduction in the influence exercised by the large houses controlling the banks.

Then, the increase in the member of technically qualified personnel generated pressures for overcoming

financial limitations inhibiting their entry into industrial sphere. Narrow control-base of the commercial banks could easily be identified as a limiting factor which had to be changed in order to improve entrepreneurial prospects for these vocal sections. The process of urbanisation was also strengthened during the period 1950-1969 and opening of branches by banks tended to contribute to the emergence of smaller towns as growth poles and centres. The conservative policy of private banks regarding branch expansion also invoked favourable response to bank nationalisation in these urban areas. It may well be suggested that while private banks found it difficult to cater adequately to the needs of agriculture, small industries, technical persons and small towns, there was little long-term conflict between the satisfaction of credit needs of the above mentioned categories and the interests of controllers of big private banks. Hence, given the specific features of bank nationalisation and likely course of future credit policy, the degree of opposition emanating from the large industrial houses could not have been too vehement.

The constellation of forces, relevant from the angle of ownership pattern of banks, which came to obtain towards the close of sixties was markedly different from that which existed in the early fifties. During earlier period, the

State structure was the only well organised sector, which could have acted as a counterweight to the organised industrial industrial groups. Since the State's own financial needs could be met without recourse to commercial banks, there was no strong enough group against private sector banking. Along with the problems faced in obtaining credit by agriculture and other sectors, by the end of the sixties, the difficulties in raising resources for the plans had become quite acute. Under such a situation, direct control over banking would certainly held more attraction for a Finance Minister contemplating avenues of resource mobilisation in not-too-distant future. Thus, it appears that the combination of interests who may hopefully look to nationalised banking as a vehicle for furthering their socio-economic prospects (as distinct from mixed banking) became stronger in comparison to the forces who resist it.

However, examption of foreign banks from the purview of nationalisation was significant. It not only indicated the kind of approach which came to obtain regarding foreign capital, but also showed special position acquired by foreign capital. Referring to that element of Indian policy towards foreign capital which dictated non-discrimination between foreign and Indian undertakings, Michael Lipton argued that the non-discrimination policy "was actually

relaxed in favour of foreign banks, notably British investors, when Mrs. Gandhi exempted overseas banks from the Bank Nationalisation Act' of 1970 thereby imperilling that Act's constitutionality".[244] In fact, one of the foreign banks, viz., National and Grindlays Bank, was above the cut-off point for the choice of banks to be brought under public ownership and control[245] in 1969. Also in 1980 when six other private banks, which grew at rates much in excess of the public sector banks,[246] were nationalised, discrimination in favour of foreign banks, particularly National and Grindlays, (no withstanding the fact that a specific demand for its take-over was made in the Parliament), was witnessed once again. In 1969, the reason given for excluding foreign banks was connected with the assumption that these banks "render more efficient service to the Indian consumers in financing foreign trade and tourism."[247] In 1980, it was blandly declared that it is not the policy of the Government to nationalise the foreign banks.[248] Such features of the take-over process limit the role which nationalisation may play largely to a specific sector; in this context, to the needs of credit planning. These features prevent nationalisation from becoming either a tool of socio-economic restructuring (except through its unintended, long-term

effects) or a part of general instruments of economic policy which are used for a variety of macro-level purposes. In fact, the specific exemptions, compensation rules, subsequent' management structure and policies etc. (as seen regarding the exclusion of foreign banks on account of policies towards foreign capital and finance) work towards reconciling this extreme policy choice with the general and basic thrust of public policies which is not in consonance with any marked reduction in the concentration of private property.

The facts that the bigger of the remaining private ones experienced unprecendented rates of growth after 1969 (the average annual rate of growth of deposit of the six banks between 1969 and 1978 was 227.6 percent, for branches it was 17.51 percent. For the 14 nationalised banks the corresponding figures were 51.7 percent and 27.5 percent respectively)[249] and had to be taken-over mainly on this account after eleven years of the take-over of major banks in 1969, indicate that the interaction between banking which is largely under public ownership and the rest of the economy did not change in any basic sense. The changes flowing from bank nationalisation remained confined to the credit sphere

and operated on the rest of the economy in terms of the credit policies followed by the public sector banks, but being a component of the circulation sphere, were subsidiary to the basic policies concerning the production sphere.

In making bank nationalisation primarily a credit sphere phenomenon, a certain role can also be perceived for the absence of any sustained anti-monopoly movement in the country. In fact, it may not be reasonable to expect nationalisation to emerge as a macro-level, socio-policical instrument without the acceptance of a policy of socio-economic restructuring on the basis of a redefinition of property relations. Mere economic compulsions and pressures do not seem likely to bring about the acceptance of such a policy; sustained and effective social mobilisation is an important pre-condition.

Notes and References

1. RBI, *Annual Report, 1970*, p.59, The list containing the names of 14 banks can be seen in Table showing compensation paid.

2. *Idem*, The stay order prevented the Government from appointing any advisory boards, removing the Chairman and issuing directions contrary to existing law to 14 nationalised banks. After the passage of the Act, the first injunction of the three mentioned above was removed.

3. Singhvi, L.M.(Gen.ed.) *Bank Nationalisation and Supreme Court Judgement*, National, Delhi, 1971, p.161. It gives the full text of both majority and minority judgments. Appendix II.

4. *Ibid.*, p.51.

5. *Ibid.*, p.226.

6. RBI, *Report on Currency and Finance*, 1969-70, p.104. Also, RBI, *Annual Report*, 1970, p.60.

7. *Ibid.*, p.60

8. Singhvi, *op.cit.* p.231.

9. *Ibid.*, p.247.

10. Hasan, K.S.*Banking in India*, Macdonal and Evans, Estover, 1973, p.32.

11. Singhvi, L.M. *op.cit.* pp.9-11.

12. *Ibid.* 12, Sarkar, R.C.S. in "The Case of Acquisition of Banks: Culmination of a Trend" pp. 1-18, says, that though no express prohibition is made, "but nonetheless they would be debarred even under ordinary law from carrying on this business." *Idem.*

13. As Sarkar, R.C.S., Ibid. said, "As a result of this decision, the Government was faced with series difficulties. It was felt that it would be impossible for the Government to nationalise any big industry or business, if full compensation were to be paid to the owners and many schemes of economic reforms might have to be abandoned." p.6. The author congently argues a case against the "just equivalent" interpretation of compensation and its judicial review in view of the Fourth Amendment to the Constitution.

14. Section 9 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1970 (No.5 of 1970) in Singhvi, L.M. (ed.) op.cit. pp.234-235.

15. Ibid. pp. 235-236

16. Ibid, p.234, Section 8.

17. Finance Ministry Government of India, Annual Report, 1969-70. para 257.

18. This was resented by the President of the FICCI. He wrote, "The Bill, as adopted by Parliament, makes no reference to business principles. It confines itself to what has been called public interest. Even when the Imperial Bank was nationalised and re-named the SBI, the Act specifically provided that the Board would be guided by considerations of "Business principles, regard being paid to public interest." This double criterion in the operation of the banks is absolutely necessary because in the absence of business principles it is likely that credit may be given indiscriminately involving the banks into bad debts and heavy losses." Poddar, R.A. "Purposive Direction to Credit." in Nationalisation of Banks: A Symposium, Publications Division, GOI, New Delhi, 1970.

19. Idem.

20. Kabra, K.N., K.Suresh, R.R. Public Sector Banking, PPH New Delhi, 1970.

21. RBI, <u>Report of the Central Board of Directors for 1962</u>, Bombay, 1962, p.34.

22. <u>Idem</u>.

23. In the case of the Imperial Bank of India, Reserve Bank of India and LIC the ratio of compensation to net-worth was
respectively.

24. Ministry of Finance, Report, 1969-70, op.cit. para 257.

25. Publications Division, <u>Nationalisation of Bank: A symposium</u>, op.cit. p.10.

26. Brecher, M., <u>Nehru: A Political Biography</u>, London, Cambridge University Press. 1965.

27. Joshi, P.C. "Shift in the Base of Political Power." in <u>Nationalisation: A Symposium</u>, op.cit. pp.6-9. He writes, "the political impact of this measure even in the short-run in unmistakable. As the first basic step after almost five years of the eclipse of the Nehru era, it has provided a starting point of consensus among the major political forces in the country. Above all, this is the first economic step, <u>perhaps the boldest since Independence, which has been taken in defiance of the Big Business interests</u> and their political representatives and in the background of vast social discontent against economic disparities persisting, ever growing, in Independent India' p.7 emphasis ours.

28. Gandhi, India, "Why Bank Nationalisation? in Symposium <u>op.cit.</u>p.1 "As against a total deposit of nearly Rs.2,750 crores at the end of Dec. 31, 1968, the paid-up capital of these banks was only Rs.28.5 crores, or just a little over one percent."

29. See, <u>History of the RBI</u>, op.cit. Bagchi, A.K., The First Century of the SBI, op.cit. Muranjan, S.K.<u>Modern Banking</u> in India, Bombay.

Keynes, J.M., Indian Currency and Finance, London, Mac, 1924. Ramchandra, Rau, Present Day Banking in India, Calcutta University, Calcutta 1928 and various Reports on Banking Inquiry at National and Provincial levels.

30. Keynes, J.M., op.cit. p.195.

31. Ibid. pp.195-196.

32. See the references cited at note 29 above. Muranjan, op.cit. pp. 24.29, narrates the story of the first period 1860-1900, which broadly coincided with the emergence of the factory system in India.

33. Bagchi, A.K., op.cit. p.

34. Ibid.

35. Muranjan, op.cit. pp.27-28.

36. History of the RBI, op.cit. Chapter 3 and 4.

37. As Panandikar, op.cit. pointed out the East India Co. provided part of the capital, asspointed I.C.S. members as treasures and secretaries, had limited rights of note-issued, and were given the use of government balances free of charge, p.5.

38. Ibid. p.1 and p.1.7. This was related to the increased level of investment and fall in interest rates in the last decate of the 19th century. See Muranjan. op.cit. pp. 66-68. The deposits of the Presidency Banks amounted to Rs. 15.68 crore in 1900 Panandikar, op.cit. p.9

39. Muranjan, op.cit. p.26

40. History of the RBI, op.cit. p.25. Also, Bagchi, op.cit. p.20.

41. Panandikar, op.cit. pp. 8-9, 16-18, and p.22.

42. Deposits with banks are recorded in money terms. Since money supply in the economy does not relate in the unique way to GNP (either at current or constant prices), it would be unnecessary to correct the figure of deposits for price changes in so far as the deposits are taken as an indicator of the size of business transacted by the banks and are not supposed to reflect any real level of activity.

43. GOI, Ministry of Finance, Report of the Rural Banking Enquiry Committee, 1953, p.23.

44. Ibid, pp.22-23, There were 444 cases of bank liquidations during 1939-1945 and 294 during 1948-1954. See Panandikar, op.cit. p.36 History of the RBI, op.cit.

44. Ghosh, D.N.op.cit. p.44 and Panandikar, op.cit. p.31-48 Also, Government of India: Report of the Travancore-Cochin Banking Enquiry Commission, 1956. and RBI Bulletin, "Bank Mergers in India October, 1966, pp. 1151-1157, RBI, History, op.cit.p.

45. RBI, Bulletin, "Bank Mergers in India" op.cit. p.1154.

46. Muranjan, op.cit. p.39.

47. Idem.

48. Panandikar, op.cit. p.28

49. Report of the Rural Banking Enquiry Committee, op.cit. p.23.

50. Ibid.,p.42.

51. Report of the Rural Banking Enquiry Committee. op.cit. and RBI, Report of the Committee on Finance for the Private Sector, 1953. Bombay. p.

52. Compiled from RBI, Statistical Tables relating to Bank in India (various issues).

53. Idem.

54. With respect to deposits, centres with a population of less than 10,000 accounted for only 3.3 percent and 3.6 percent of the total in 1961 and 1966 respectively, while centres with over one lakh had a corresponding figure of 78.4 percent and 72.7 percent. Corresponding shares in bank credit were 3.1 and 2.2 percent for the former size centres and 63.6 and 81.7 percent for the larger size settlements for the two years respectively. Ghosh, D.N., op.cit. p.58.

Similarly, regional concentration of banking is visible in the fact that West Bengal, Tamilnadu & Maharashtra accounted for 62 percent of deposits and 72 percent of credits in 1950, 45 percent of deposits and 63.3 percent of credit in 1960 and on the eve of nationalisation for over 44 percent and nearly 60 percent of deposits and credits respectively. Ibid. pp.60-63. Based on RBI data from Statistical Tables Relating to Banks in India. Various issues.

55. This can be seen from the following Table

Share in Deposits, Credits and Bank offices

	Deposit	Credit.	Branches	Dep.	Credit.	Branches	Dep.	Credit	Branches
West Bengal	20.9	28.5.	7.5	15.3	24.3	5.6	13.8	19.4	6.1
Maharashtra	32.9	33.1	16.1	23.3	30.4	13.2	24.2	29.8	13.7
Panjab	4.6	2.2	7.5	5.0	2.8	7.6	4.4	1.6	4.2
Orissa	0.2	0.2	0.4	0.4	0.3	1.1	0.7	0.5	1.2
Bihar	2.7	1.7	5.2	2.7	1.7	3.8	3.6	1.4	3.3

Summarised from Idem

See, Kabra, K.N. & Suresh, R.R., Public Sector Banking op.ci. Table III on Credit-Deposit Ratios in the States, pp. 116-117. It shows the ratios separately for Ahmedabad (167.1 in 1960 and 118.4 in 1965), Madras

(100 in 1960, 141 in 1965), Bombay (85.7 in 1960 and 95.2 in 1965) and Calcutta (110.1 in 1960 and 107.4 in 1965). The ratios are as low as 25 and 34.5 in Assam, 38.7 and 43.6 in Bihar, 36 and 44 in Orissa, 8.5 and 17.8 in Jammu and Kashmir for the two years respectively.

56. RBI, Statistical Tables Relating to Banks in India (Abridged ed.) 1950. Bombay, p.54.

57. Idem.

58. RBI, RBI Bulletin, Dec. 1968. p.1507.

59. GOI, Planning Commission, Report of the Committee on Distribution of Income and Levels of Living, Pt. I. Delhi, 1964 p.54.
GOI, Report of the Monopolies Inquiry Commission, Vol.I, Delhi, 1966 p.10.

60. Panandikar, op.cit. p.37, shows the concentration as found in 1941. As the data, seen above, about the relative position of 14 nationalised banks at the time of their take-over show, the pre-eminence of a few banks remained undiminished.

61. Nigam, Raj, K. "Inter-locking of Directorships between Banking and other Companies". Company News and Notes, October 1, 1968, p.70, table 6.

62. Op.cit. p.435.

63. "The dominance of industrial directors on the boards of the commercial banks is seen to be much greater in the case of the first eight banks, in whose case they numbered 58 out of 77 or nearly 77 percent of the total." Report of the Committee on Distribution of Income and Levels of Living, op.cit. p.

64. An unpublished study of the RBI's Economics Department, 1965.

65. As defined in the Industries Licensing Policy Enquiry Committee (Main Report (GOI, New Delhi, 1969, p.12).

66. See, footnote numbers 59 and 63 above.

67. Bagchi, A.K. Private Investment in India, 1900-1939 (Cambridge, 1972). He wrote, "As far as the major British Managing agency houses and the large Indian business groups were concerned capital was abundant." p.21.

68. See, Bagchi, A.K. Private Investment in India. op.cit. pp.171-172, Buchaman, D.H., The Development of Capitalist Enterprise in India. Panandikar, op.cit. Ghosh, D.N., op.cit. pp.16-17, etc. RBI: History of the RBI, op.cit. pp.63-68. Also, Bagchi, A.K. The First Century of the State Bank of India: Changes in the Structure and Functions. Monthly Review, SBI, Dec. 1978- Jan. 1979, pp.20-37.

69. History of the RBI, op.cit. p.65.

70. Panandikar, op.cit. pp-428-430.

71. Ibid. pp. 11-12. The paid-up capital of these banks was just 14 percent of the authorised capital. Deposits were attracted by offering very high rates of interest, which forced them to go in for risky speculative lending for bullion, jewellery and other commodities. Also, Ghosh, D.N. op.cit. quotes Hilton Young Commission about bank failures. p.19 and 25.

72. Ghosh, D.N. op.cit. p.20. See references there to Chamberlain Commission (1913), Hilton Young Commission (1926) and to the question of converting the IBI into a Central Bank.

73. Bagchi, op.cit.

74. Superintendent of Government Printing, India, Report of the Indian Industrial Commission, Calcutta, 1918. Chapter X. pp.178-186. Particularly p.176-177.

75. Panandikar, op.cit. p.17

76. Ibid. p.19.

77. Ibid. p.30.

78. GOI, Report of the Banking Commission, Delhi 1972, p.29.

79. *Idem.*

80. *History of the RBI*, *op.cit.* Chapters 3 & 4.

81. Ghosh, D.N., *op.cit.* quoting Ever and Hambro's note to Fowler Committee (1898). p.20

82. History of the RBI, *op.cit.* p.444.

83. *Idem.*

84. Ibid. pp.444-445. On the basis of such an inspection one bank was excluded from the schedule in 1943. Ibid. p.446.

85. Ibid. 446-447 and the *Report of the Banking Commission*, op.cit., pp.29-30.

86. *Idem.*

87. *History of the RBI*. op.cit. pp.446-448.

88. *Ibid.* pp.448-449.

89. *Ibid.* p.439

90. *Ibid.* p.440.

91. Panandikar, *op.cit.* p.36.

92. Even the rudimentary control which was exercised by Department of Examiner of Capital Issue and the RBI was resented by some banks. At a conference of Southern Indian Joint-Stock Banks in 1944 it was complained that these authorities stood in the way of the smaller banks strengthening their capital structure. *History of the RBI*. *op.cit*, p.449.

93. *Report of the Banking Commission*. p.28.

94. *History of the RBI*: *op.cit.*, p.454-462.

95. Ibid. pp.450-462. Also, *Report of the Banking Commission*, op.cit. pp.29-30.

96. History of the RBI. op.cit., p.456.

97. Ibid. p.452.

98. Ibid. p.458. It reports, quoting Indian Express, February 25, 1944, that this move was welcomed as the 'Vices sought to be corrected were serious'. p.458.

99. Ibid. pp. 464-465. The Select Committee was for covering under the banking law all the banks and for extending important provisions of the Bill to the IBI as well.

100. Ibid. p.466

101. Ibid. pp.718-722 and the Report of the Banking Commission, op.cit., p.30.

102. History, op.cit. p.727.

103. Ibid. p.730 During 1946-50, a total of 207 banks failed, Idem.

104. Ibid. p.727.

105. Ibid. p.748.

106. Indian Banks Association pleaded for the removal of the dividend ceiling while Shri T.T.Krishnamachari and M.A.Ayyanger opposed the removal. Ibid. p.1, 746-747.

107. The Banking commission also said, "the Banking Companies Act, 1949, was enacted mainly for the purpose of protecting the interests of the depositors. As and when experienced showed that the provisions were inadequate, fresh provisions were added to the Act or the existing provisions were amended." op.cit. pp. 30. Also, GOI, Ministry of Finance, Report 1949, p.9- As the RBI stated in 1946, "the protection of depositors and the development of banking on sound lines are a national interest.... " Ibid. p.720.

108. GOI, Ministry of Law, The Banking Regulation Act, 1949, (10 of 1949), Delhi 1966.

109. History, op.cit. pp.232-235. Also, Sinha, S.L.N. All the Bank's Men, Institute of Financial Management and Research, Madras, 1975. pp.102-103 lists industrialists who served on the Central Board of the RBI. Following the controversy over Sir Osborne Smith's resignation from the Governorship of the RBI in 1936, the Indian Merchants Chamber, Bombay spoke of him as one to whom they became accustomed as looking for the protection of their interests. They also pleaded for the independence of the RBI, History, op.cit. p.225. For the composition of the First Central Board, with most of the nominees being businessmen, See, Ibid., pp.127-128.

110. Ghosh D.N., op.cit. p.42. He goes on to elaborate, "the extent of unsecured advances or advances against immovable property, which a local bank having knowledge of local clients and being in constant touch with them, might safely give might tend to be larger than the limits that might be laid down for a bank operating with widespread branches throughout the country. The enforcement of a rigorous standard for the sake of uniformity or non-discrimination without any consideration of the needs of the market which a small bank catered to had important implications for the structural development of the banking System". p.42.

111. For example, by Manu Subedar in the course of the deliberations of the Select Committee on 1946 Bill, like removal of various distinctions like Scheduled, non-scheduled etc., constitution of a rehabilitation fund for banks in crisis. History op.cit. p.740.

112. On the lines of the subsidiarisation model which the SBI adopted with respect to the State-associated banks.

113. Panandikar, op.cit., pp 213-214.

114. As the History, op.cit. puts it, "The salutory effects of the Banking Companies Act were in evidence fairly soon after it came into effect. There was a tendency amongst banks to put their house in order and the beginning of bank mergers were also noticed." pp.751-52.

115. GOI, Ministry of Finance; Report 1949-50, p.9.

116. See Appendix I.

117. Notable bank failures were those of Palai Bank and Laxmi Bank in 1960. (Report 1960-61 Ministry of Finance, GOI, p.36) Total number of bank liquidations or under moratorium upto 1967 was 60. Compiled from various Reports of the Central Board of Directors of the RBI.

118. GOI, Planning Commission, The First Five Year Plan, New Delhi, 1952, explains the new pressures and needs. pp.37-39. Also, RBI, Trends and Progress of Banking in India, 1956, p.20.

119. First Five Year Plan, op.cit., pp. 38-39.

120. See Appendix.

121. RBI, Report of the Central Board of Directors, 1961, p.29.

122. RBI, Report of the Central Board of Directors, 1959, p.19.

123. See notes 118 and 119 above.

124. Ibid. Reports for many years between 1954 and 1968.

125. Ibid. for 1961 p.37.

126. Ibid. for 1962, p.36.

127. History, op.cit., p.517 also pp. 529-530, C.D.Deshmukh's in the Constituent Assembly on 22 November, 1950. See Constituent Assembly (Legislative) Debates, Vol. VI, Pt. II p.439.

128. GOI, Ministry of Finance, Report 1964-65, p.29.

129. Nigam, Raj, K. Inter-locking of Directorships between Banking and other companies. Companies News and notes. 10th October, 1963. According to a Study the percentage of industrial directors total was 91% for Bank of India, 80% of Central Bank of India, 66% for Panjab National Bank, 77% for United Commercial Bank and 83% for Bank of Baroda. The data are for the year 1957-60. For 14 banks, including the SBI (48%) the figure was 51%. See, GOI, Planning Commission, Report of the Committee on Distribution of Income and Levels of Living 1964, New Delhi. pp.47-48.

130. Ibid. pp. 47-48. The figure for the SBI was the highest at 26.9 percent.

131. RBI, RBI Bulletin, Dec. 1968, pp.1502.

132. Ibid. p.1507

133. op.cit. p.49.

134. Report on Currency and Finance, 1967-68, p.79.

135. It may be marked that "demand" was to be assessed and not "need" which may be having little relation to the existing economic structure and more to the objectives sought.

136. Idem.

137. Ibid., p.80.

138. Idem.

139. Idem.

140. Idem.

141. Section 36AE of Act 58 of 1968. The India Code, Vol.I; Pt. XI, p.820.

142. RBI, Report of the CBD., 1969, p.30.

143. RBI, <u>Report of Central Board of Directors</u> (CBD) 1955 p.25 and also the Report from 1956 to 1959 make references to those exemptions.

144. RBI <u>Report of the CBD for 1958</u>, p.27.

145. RBI <u>Report of the CBD for 1961</u>, p.29.

146. GOI, Planning Commission, <u>The Third Five Year Plan</u>, Delhi, 1961, p.15.

147. <u>Idem</u>.

148. Banking Regulation Act, 1944, provided for voluntary amalgamations under Section 44A. By an amendment in 1960, provision was made under Section 45 for compulsory mergers. SBI Act, 1955 under its Section 35 and SBI (subsidiaries) Act. under Section 38 provided for mergers. Under Section 293 (i) (a) of Companies Act, 1956, it was possible to transfer assets and liabilities of one bank to another.

149. Francis, A.K. "Bank Mergers in India", <u>RBI Bulletin</u> October, 1966, pp.1151-57.

150. Ghosh, D.N., <u>op.cit.</u> p.44.

151. RBI, <u>Annual Report, 1966</u>, p.19

152. RBI, <u>Trends and Progress of Banking in India</u>, 1960, pp.28-29.

153. As quoted by Ghosh, D.N., <u>op.cit.</u> p.46

154. <u>Ibid</u>. p.45

155. <u>Ibid</u>. p.47.

156. Francis, A.K., <u>op.cit.</u>, p.1157. He shows that this happened with respect to all the banks merged in 1961.

157. Ghosh, D.N., *op.cit.*, pp.50-51. It shows that between 1949 and 1955, about 80 percent of the applications for starting branches were received from the larger Indian and foreign banks.

158. The data we gave in the preceding regarding regional differences in deposit-credit ratios would bear out the proposition.

159. RBI, *Statistical Tables Relating to Banking in India*, 1966 Appendix II, pp.150-153.

160. Debts due by Companies or Firms in which the Directors of the Bank are Interested: 1960-1968 (Rs. Lakhs)

Year	SBI	Subsidiaries of SBI	Foreign Banks	Other Indian scheduled Banks.	All Scheduled Banks
1960	6317	539	1070	6272	141,98
1961	6781	751	1419	6641	155,92
1962	7283	735	1385	8946	183,47
1963	7069	1010	1365	10696	201,40
1964	2943	1364	1339	11189	228,35
1965	12636	1555	1389	13507	290,87
1966	12922	1525	1678	14851	309,76
1967	10036	1676	1829	12466	244,28
1968	969	1461	2773	6725	91,55

Source: RBI, *Statistical Tables Relating to Banks in India*, various issues for different years. page 10 in each.

161. Nigam, Raj K. was quoted by Shri B.B. Das in a Rajya Sabha debate on his motion on take-over of banking and general insurance. He said, that four banking magnates controlling most of the private banks also control, through the banks the industrial life of the country. *Rajya Sabha Debates*, 1969 Vol.60. column nos. 898-899.

162. Francis, A.K., op.cit. p.1157 showed wide divergence between the lending policies of the bigger and the smaller banks.

163. For example the manner in which industrial licensing policy was implemented contributed a great deal to concentration in industrial sector. Control over banks and thus the ability to claim availability of bank finance (which made a project pass the test of bankability) enabled the larger industrial licences to obtain large sums of credit; as Ghosh, D.N., op.cit. put it, "the predominance of big units in the system has been imposing a bias in favour of the bigness of the size of the loan." p.49. Hanumantha Rao, C.H., pointed out that "the distribution of credit follows the licensing pattern." in Nationalisation of Banks, op.cit. p.83.

164. A non-official resolution for the take over of all credit institutions including banks was moved in the Rajy Sabha in May 1967. In the course of the debate over it, the government agreed to take "such steps including nationalisation as may be necessary to extend effective social control over these institutions. Rajya Sabha Debates. "Vol. IX, No.4 paras 894-228. Many experts, participating in a Seminar on Bank Nationalisation, advocated the need for bank nationalisation in March 1964. See Mainstream, March 21, 1964 pp. 11-17.

165. In the Select Committee on the Banking Companies Bill, 1946, a note of dissent by five members said that all banks should be nationalised at an early date. History, op.cit. p.508. In 1947, Shri Mohan Lal Saxena gave notice of a Resolution to take necessary steps to nationalise the RBI and the IBI as a prelude to nationalisation of banking and insurance. Ibid. p.509.

In 1948, the Report of the Economic Programme Committee of the AICC (Delhi 1948) recommended that "banking and insurance should be nationalised (Section IV, para 14). As we shall see later, the demand for nationalisation of banks was strengthened at various points of time through inclusion in the Ten-Point Programme of the AICC (Social Control), and the resolutions of Jabalpur and Bangalore AICC session during 1967-69.

166. It was stated by the Deputy Prime Minister while introducing the social control Bill. See Bank Nationalisation. A Symposium, op.cit., p.

167. GOI, Report of the Banking Commission, op. cit., pp. 29-32.

168. See RBI, Report on Currency and Finance, 1967-68, p.80. for the function composition and functioning of the NCC. On the working of NCC, See, Report on Currency 1968-69 p.110. Also Trends and Progress of Banking in India, 1967. pp.23-24.

169. Ibid. p.79.

170. Idem. As the Report of Banking Commission, op.cit. put it, the main objective of social control were "achieving a wider spread of bank credit, preventing its misuse directing a larger volume of credit to flow to priority sectors and making it a more effective instrument of economic development." p.39. See Also, Trends and Progress of Banking in India, 1967, p.23. Recognising that bank credit "tended to be directed to large and medium industries and big and established business houses" it pleaded for "purposeful and equitable distribution of credit." p.23.

171. RBI, Report on currency and Finance, 1967-68, p.81.

172. Trends and Progress, 1967, op.cit., p.23.

173. Report on Currency and Finance, for 1968-69, pp. 109-110.

174. Trends and Progress, 1967, p.24.

175. Report on Currency and Finance, 1968-69, pp.109-110.

176. Trends and Progress, op.cit., p.25.

177. Report on Currency & Finance, 1968-69. op.cit. p.109. The other three study groups were set up to examine the extent to which the credit needs of industry and trade were likely to be inflated and how to check this trend; (2) the organisational framework for implementing the social control and (3) the need for area/project approach in extending credit for agricultural purposes.

178. RBI. Trends and Progress of Banking in India, 1967. Annexture-III

179. However, as the data concerning debts due from the companies in which the Directors of the Banks are interested (from statistical Tables relating to Banks in India, various issues, page 10 in each), such debts of all scheduled Banks declined in 1967 and 1968 while in 1966, such debts amounted to Rs.309.76 crores, in 1967 were Rs.244.28 crores and in 1968 were Rs.91.55 crores. However, these facts show no specific success of social control scheme, because the proportion of bank credit going to industry increased to 67.5 percent by March'68 with no marked change in the share of small scale industries. (See Table IV on Sectoral Distribution of Bank credit).

180. Pillai, V.R.,"Partial Nationalisation Not Enough." in Nationalisation of Bank: A Symposium, op.cit.,p.14.

181. "Confronted with the problem of agricultural credit, e.g. the banks met their targets on paper by extending fertiliser credit to State governments and others, without lending directly to the farmers." Vishnu Dutt, Bank Nationalisation in Perspective, Publications Division, GOI, New Delhi, 1970, p.3.

182. "The experiment (of social control) failed basically because ownership and credit policy cannot be divorced." Diametrically opposite was the assumption in the official circles concerning the rationale of social control. As the Finance Minister maintained, "whatever the character of the shareholding, its influence is neutralised in the constitution of the Board of Directors and in actual credit decision taken at different levels of banks' management" quoted by N.P. Kurup, "Story of Indian Banking" in Nationalisation of Banks, op.cit., p.155.

183. Raj, K.N. "A corrective to Economic Misdirection", in Nationalisation of Banks : A Symposium, _op.cit._' p. 97.

184. _Ibid._ p. 94. The reference is to the AICC session at Banglore in 1969.

185. Toye, John, _Public Expenditure and Indian Development Policy_, 1960-70. Cambridge University Press, Cambridge, pp. 19-20 gives a similar argument about the relative competence of State accumulation with reference to the inability of private capital. -

186. It is not implied, however, that the nationalised banking in future, even in immediate future, cannot break away from the patterns displayed by the behaviour nationalised segment of banking in the immediate past.

187. See, RBI, _Report of the All India Rural Credit Review Committee_, (AIRCRC) Bombay, 1969, pp. 347-349.

188. _Ibid._ pp. 364-374. The deposits of the SBI increased from Rs. 118 crores in 1965 to Rs. 1011. 5 crores in 1968. This increase of 438 percent was many times higher than 33 percent clocked in by other banks. For agriculture and small scale industries, the SBI exceeded target for the period July 1968 to June 1969, while the other scheduled banks lagged behind. See, Vishnu Dutt, _op.cit_ . p.4.

189. _Company News and Notes_, "Top Scheduled Banks ", 16 January, 1968. pp. 423-35.

190. GOI, _Report of the Committee on Distribution of Income and Levels of Living, op.cit._ Chapter 4 paras 50-51. Also the table in note no. 90 above.

191. See, Schaffer, BB. and Wen-hasion, Huang, "Distribution and the Theory of Access ", _Development and change_ Vol. 6 no. 2, 1975 . pp. 13-36.

192. This is not to belittle the influence of the factors determining the demand for credit, which were not made objects of intervention under the scheme of social control.

193. RBI, Report on Currency and Finance, 1968-69 op.cit. & RBI, Report of the All-India Rural Credit Review Committee, op.cit.

194. As an illustration, one may cite the following: As B. Brodovich explained, "Bank nationalisation would provide many advantages. This would end the concentration of finance capital in the hands of the biggest industrial monopolies. It would use the public savings for general national purposes, not those of the monopolies, guaranteeing supplementary resources for financing the five year plans, and so use state control of a key sector to speed the economy's growth rate. At the same time as it would stop the outflow of currency and save the country's foreign exchange reserves, public control would also prevent speculators from getting credit to collect stocks and speculate on prices. Nationalisation was the necessary pre-requisite for democratising the credit system in the interest of the peasantry and small industry" in Stephen/ /Clarkson, The Soviet Theory of Development, Macmillan, London, 1978, pp.66-68.

195. It was pointed out that since the government took the view that "mere acquisition of banks by the State would severely strain the administrative resources of the government and, at the same time, leave the basis issues untouched". "instead a scheme of social control of banks has been introduced.". RBI, Report of the All India Rural Credit Review Committee, Bombay, 1969, p.337. Thus the issue of take-over of banks remained a moot one.

196. See, Frankel, F.R. India's Political Economy: 1947-77, OUP, Delhi 1978. Chapter 10 K.N.Raj, "One would be less than an adult to imagine that the exigencies of the inner-party struggle for power were not a major factor in the timing of the decision." In Bank Nationalisation: A Symposium, op.cit., p.94 emphasis added.

197. RBI, Report of the All-India Rural Credit Review Committee, (AIRCRC) Bombay, 1969. pp.55-65. Also, GOI, Planning Commission, Fourth Five Year Plan, New Delhi. n.d. pp.5-7.

198. India: Lok Sabha Secretariat, Lok Sabha Debates, 3rd Series, Vol. X6lX no.24, Dec. 7, 1965 Also.

199. Desai, A.R., Reliance on Rich Farmers for Development: Its Implications. *Economic & Political Weekly*, Sept. 18, 1955, pp.1453-1456.

200. See, Frankel, F.R., *India's political Economy 1947-77*, Delhi, OUP, 1978, pp.329-330, pp.314-315. For controversy between Planning Commission and Ministry of Agriculture (which was committed to the new strategy) over Fourth Plan allocations for Agriculture and how the latter carried the day, See pp.280-287. The foreign exchange cost of implementing the strategy to Rs.1114 crores over the period 1966-71. Quoted by Frankel, p.323.

201. See, *AIRCRC Report*, *op.cit.*, Chapter IV.

202. *Ibid*, Table 4 on p. 88.

203. *Ibid.*, Table 7 p. 95.

204. *Ibid.*, p.74.

205. *Ibid.*, p.78.

206. GOI, Planning Commission, *Fourth Five Year Plan*, New Delhi, p.140.

207. *Idem.*

208. RBI, *Report of All India Rural Credit Review Committee* (AIRCRC) Bombay, 1969, p.15.

209. *Ibid.* p.25.

210. *Ibid.* p.100

211. See Table IV for sectoral shares in bank credit.

212. See *Report of the AIRCRC*, op.cit. p.32

213. *Report of AIRCRC*, *op.cit.*, p.329.

214. *Ibid.* p.331.

215. Inaugural Speech of the Governor RBI to a Seminar on Financing of Agriculture by Commercial Banks on December 6-8, 1968 in Financing of Agriculture by Commercial Banks, Report of a Seminar, (Later referred to as Seminar on Financing Agriculture) RBI, Bombay, 1969, p.3.

216. Quoted by Bettleheiur, C., India Independent Khosla & Co. Delhi 1968, p.76.

217. As the then Governor of the RBI put it, "The traditional methods of farming are everywhere giving place to more scientific and modern methods like use of hybrid seeds, fertilisers, pesticides and multiple cropping, assisted by efforts to improve irrigation by sinking well, installing pump sets, etc. those changes mean that subsistence farming is being replaced by something which is profitable and generates surpluses". Ibid. p.3. For the extent of adoption of new methods of production and changed context of agriculture from the angle of banking see Report of All India Rural Credit Review Committee, op.cit. pp.33-80.

218. Ibid. p.3, emphasis added. As the All India Rural Credit Review Committee said, "as the agricultural sector of the economy becomes an area of dynamic growth and viable business, it assumes greater relevance for the banking system which has to mobilise the savings of the community for financing all productive economic activity. While the increasing productivity and rising farm incomes result in a growing deposit potential, progressive modernisation and commercialisation of agriculture and the emergence of viable units help to open up an expanding line of social and profitable lending". op.cit. pp.336-337, emphases added.

219. Op.cit.p.173. See Tables on page 130 for co-efficients of concentration of cooperative credit and associated co-efficient of concentration of assets. For reasons for the low share of small farmers see Ibid. pp.176. For the figures on owned funds and total lending see Ibid.p.138.

220. Report of AIRCRC. op.cit. p.147. Also pp.145-157.

221. Bettleheim, C. India Independent. op.cit. p.78.

222. As the then Governor of the RBI said in December 1968, "The response of the bankers to the guidelines promulgated by the National Credit Council has been most encouraging." Seminar on Financing of Agriculture, op.cit. p.3

223. Ibid., p.4

224. Ibid., p.7.

225. He went on to add that, "To talk, at present, of commercial bank involvement in anything more than proper banking credit for a production section, would defeat the very purpose of our exercise." Idem.

226. Ibid., p.11

227. Ibid., p.17.

228. Ibid., p.13

229. Idem.

230. "The index of industrial production (base 1960-100) increased only by 1.7 percent in 1966-67 and there was hardly any growth (o.3 percent) in 1967-68. This sharp declaration was accompanied by an increase in unutilised capacity in a number of industries. Even then the stagnation was not general. It was most pronocenced in certain capital goods industries. In some important industries such as fertilisers, petroleum products, non-ferrous metals, electrical machinery and pumps a satisfactory rate of growth continued to be maintained. An all round industrial recovery began in January 1968 and resulted in an increase of 6.2 percent in industrial production". GOI, Fourth Five Year Plan, New Delhi pp.78. While the compound annual rate of growth of industries during the period 1951-65 and 7.66 percent during 1965-80, it was 4.01 percent. During 1965-68 it was 1.92 percent. See Sandesara, J.C. Industrial Growth in India: Performance and Prospects, in Indian Economic Journal, October-December 1982, p.121.

231. All India Rural Credit Review Committee, Report, Op.cit.

232. The communist parties were the main advocates of nationalisation of banks. Discussing the policies of the two communist parties, Frankel op.cit., p.346 says "indeed each party advocated extensive nationalisation of Key sectors in the economy, both to curb concentration of economic power in private hands and to provide additional domestic resources for large public investment. On the other hand Jan Sangha and Swatantra Party were opposed to their demands. "Neither party favoured nationalisation whether of the banks or any other section of private industry or trade" p.351.

233. See Frankel F.R., op.cit., Chapter 9.

234. Ibid., p.353.

235. Ibid., p.389.

236. Ibid., p.397.

237. Ibid. p.399.

238. Rajya Sabha Debates Vol. 60, 1967, op.cit. Private Motion by Banking Bechary Das.

239. Ibid., pp. 402-403.

240. See, Frankel, op.cit. Chapter Ten. She refers to the dangers of converting "a power struggle into an ideological dispute" p. 416.

241. Idem.

242. Ibid., p.418.

243. For a detailed account, See Ibid. pp.415-420

244. M.Lipton and Firm J. <u>The Erosion of Relationship</u> India and Britain since 1960, London, OUP, 1975, p.83. Giving an instance, Lipton pointed out, "Howevers, among the 14 banks nationalised under Act of 1970 was the Allahabad Bank which was 92% owned by the Chartered Bank (British) Chartered was reported as saying that although they were disappointed by the 'breaking up of the family', the compensation terms for the 130 branch, £ 500 mln.

245. Ibid., p.88.

246. According to the Banking Companies (Acquisition and Transfer of undertakings) Act, 1980, Six bank viz. Andhra Bank Ltd. the Panjab and Sindh Bank Ltd., The New Bank of India Ltd., Vijaya Bank Ltd., Corporation Bank Ltd., and the Oriental Bank of Commerce Ltd., were acquired. See the Gazette of India, Extraordinary, Part II, Sec. I No.36. July 11, 1980. New Delhi. p.260. According to its Second Schedule, these banks were given compensation amounting to Rs.18.50 crores, (Acquisition and transfer of undertaking) Bill.

247. P.M.'s speech in the debate on Banking companies Lok Sabha Debates, Fourth Series, Vol. 30. p.283.

248. Lok Sabha Debates. Seventh series. Vol 4 No.5 columns.

249. Economic Times, April 19, 1980. page 4 and Trends and Progress of Banking in India, various issues

Table I

Banks: Networth and compensation

(Rs. crores)

S.No.	Bank	Net worth	Compensation	Percentage Ratio of compensation Networth
1.	Allahabad Bank	2.66	3.10	116.54
2.	Bank of Baroda	5.95	8.40	141.18
3.	Bank of India	10.85	14.70	135.48
4.	Bank of Maharashtra	2.09	2.30	110.04
5.	Canara Bank	3.57	3.60	100.84
6.	Central Bank of India	12.63	17.50	138.56
7.	Dena Bank	3.02	3.60	119.20
8.	Indian Bank	2.07	2.30	111.11
9.	Indian Overseas Bank	2.21	2.50	113.12
10.	Punjab National Bank	7.27	10.20	140.30
11.	Syndicate Bank	2.98	3.60	120.80
12.	Union Bank of India	2.49	3.10	124.43
13.	United Bank of India	4.17	4.20	100.71
14.	United Commercial Bank	7.30	8.30	113.70
	Total	69.26	87.4	126.19

Source: RBI, Statistical Tables Relating to Bank in India.

Table II

Growth of Deposits of IBI and Scheduled Banks

(Rs. crores)

Year	IBI (earlier Presidency Banks	Scheduled Banks	Total for IBI & Scheduled Banks
1900	15.68	8.07 (33.98)	23.75
1920	87.05	73.00 (45.61)	160.05
1929	79.24	66.00 (45.44)	145.24
1934	82.00	82.00 (50)	164.00
1939*	87.84	113.00 (56.26)	200.84
1947**	200.59	669.00 (76.93)	869.59
1955	219.80	727.00 (76.78)	946.80

* After transfer of government funds to the RBI in 1965.

Source: Compiled from Tables given in Panandikar, *op.cit.* p.9 and p.16.

** Excluding for those areas which no longer form part of the Indian Union.

Table III

Growth in the Number of Banks and their Deposit Liabilities

(Non-Paranthesis figures gives in Rs. crores)

Year	'A' Banks	'B' Banks	'C' Banks	'D' Banks	Total
1920	71.15 (25)	2.33 (33)	-	-	73.48 (58)
1930	63.25 (31)	4.31 (54)	-	-	67.56 (85)
1940	113.98 (58)	11.04 (122)	2.86 (121)	2.71 (332)	130.59 (633)
1947**	668.94 (148)	27.51 (185)	4.05 (121)	2.69 (170)	703.19 (624)
1950	569.29 (147)	21.76 (189)	3.70 (123)	1.31 (124)	596.06 (583)
1957	903.17 (128)*	20.48 (163)	2.14 (74)	0.4 (4)	926.19 (369)

Figures in Paranthoses show number of banks.

'A' Banks with capital and reserves of Rs.5 lakhs and over.
'B' Banks with capital and reserve between Rs.1 & 5 lakhs.
'C' Banks with capital and reserves between Rs.$\frac{1}{2}$ and 1 lakh.
'D' Banks with capital and reserves less than Rs.$\frac{1}{2}$ lakh.

* 8 of these were major banks and 55 were non-scheduled ones. 64.64 percent of the deposits accrued to the former and 0.62 percent by the latter.

** For undivided India.

Source: Panandikar, op.cit. pp.17-20.

Table IV

Percentage Distribution of Bank Credit to Various Sectors

	March 1951	March 1956	April 1961	March 1966	March 1968
Industry	34.0	37.1	50.8	62.7	67.5
Commerce	36.0	36.5	28.6	21.4	19.2
Financial	12.7	9.3	5.1	3.3	2.7
Personal	6.8	6.6	6.7	4.6	3.7
Agriculture	2.1	2.0	3.1	2.4	2.2
Government	...	...	...	...	...
Others	8.4	8.4	5.6	5.6	4.7
Total	100.0	100.0	100.0	100.0	100.0

Source: Reserve Bank of India Bulletin, December 1968, p.1502 and Trends and Progress of Banking in India, January 1, 1968 to June 30, 1969. p.481.

Table Va

Size-wise distribution of Ownership of Shares

Size range Rs.	No. of accounts	Percentage	Value (Rs. Lakhs)	Percentage
1-500	46386	52.05	110.47	5.16
501-1000	15957	17.91	124.43	5.81
1001-5000	21609	24.25	507.32	23.69
5001-10000	3085	3.46	223.09	10.42
10001-25000	1418	1.59	214.72	10.03
25001-50000	337	0.38	119.91	5.60
Over -50000	317	0.36	841.45	39.29
Total	89105	100.00	2141.39	100.00

Source: An Unpublished study by the RBI.

Table Vb

Categorywise Distribution of Ownership of Shares

Category of investor	No. of Accounts	Percentage	Value (Rs. lakhs)	Percentage
1. Individuals*	87972	98.73	1418.11	66.22
2. Government**	11	0.01	20.93	0.98
3. U.T.I.	6	0.01	52.63	2.46
4. L.I.C.	9	0.01	299.58	13.99
5. Banks	152	0.17	30.04	1.40
6. Other Financial Institutions	60	0.07	78.86	3.68
7. Joint Stock Companies	352	0.40	199.06	9.30
8. Trusts	359	0.40	33.98	1.59
9. Others	184	0.20	8.20	0.38
All Categories	89105	100.00	2141.39	100.00

* Each individual account holder is treated separately though he might be owning shares in more than one bank.

** Government's holdings in banks' shares are the outcome of the transfer of share holdings of the old princely states after their merger in the Indian Union.

Source: An unpublished RBI Study.

Table VI

Advances to Agriculture by Major Scheduled Commercial Banks

(Rs. Crores)

	As on 28 June 1968			As on 25 April 1969		
	State Bank of India	19 Other Major Scheduled Banks	Total	State Bank of India	19 other Major Scheduled Banks	Total
	1	2	3	4	5	6
Direct finance ..	0.93	8.32	9.25	5.49	22.73	28.22
Indirect finance						
(a) Distribution of fertilizers and other inputs..	2.97	7.96	10.93	74.33	13.73	88.06
(b) Loans to state electricity boards	--	--	--	--	9.81	9.81
(c) Other types of indirect finance..	3.76	1.71	5.47	8.40	6.87	15.27
Total ..	7.66	17.99	25.65	88.22	53.14	141.36

Source: Report of the All-India Rural Credit Review Committee, 1969, p.341.

Banking Regulation and Legislation 1946-1970

Annexture I

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
1.	1946	The Banking Companies (Inspection) Ordinance	For empowering the Government to direct the RBI to inspect the books of account of banks, qualitative assessment of banks' management, policy and methods of business from the point of view of depositors' interests.	RBI
2.	1946	Banking Companies (Restriction of Branches) Act	For obtaining RBI's sanction for opening of a new branch	RBI
3.	1948	Banking Companies (Control) Ordinances	To provide that all banks were required to obtain RBI's permission for opening new branches or changing the location of existing branches; to grant loans to banks by the RBI against such security as the Bank may consider sufficient; to make RBI's dues from bank a first charge, after the claims of other banks on the assets of the banking company.	RBI
4.	1949 (16-3-49)	The Banking Companies Act, 1949 (10 of 1949)	i) classification of companies into banking and non-banking Co.s (ii) Minimum PUC and Reserves (iii) Restriction on declaration of dividend and transfer of a certain % of the profits to the Reserve Fund (iv) Maintenance of min. cash reserve and liquid asset ratio (v) Licensing of banking Cos. etc. etc. Generally, protecting the interests of the depositors.	RBI

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
5.	1950	The Banking Companies (Amendment) Act, 1950	Simplification of procedures involved in the process of amalgamation schemes.	
6.	1953 (30-12-53)	The Banking Companies (Amendment) Act 1953, 52 of 1953	Facilitating liquidation, control over banking companies working under schemes of arrangement, facilitating realisation of debts of banking companies in liquidation to the banks working under the scheme - To give effect to the recommendations of the "Banks Liquidation Proceedings Committee" appointed in 52.	RBI
7.	1955 (1-7-1955)	The State Bank of India Act, 1955	As per the recommendations of All-India Rural Credit Survey Committee for building up a strong, co-ordinated-State partnered commercial banking institution with branches all over the country. The Imperial Bank of India - itself the result of the amalgamation of 3 Presidency Banks in 1921 - was transformed into S.B.I.	SBI
8.	1956 w.e.f. (14-1-57)	The Banking Companies (Amendment) Act, 1956 (95 of 1956)	Amendments related to section 12, 16, 35 & 36 of the Principal Act. Prevention of misuse of voting rights through the concentration of shares in the hands of a few. To prevent undesirable tendencies in the administration of banking companies; wider powers of control and supervision to RBI. Appointment of observers on Bank's Board, restrictions on the terms of appointment of Directors and Chief Executive.	RBI

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
9.	1956 (22-10-56)	State Bank of Hyderabad Act, 1956 (Replacing the State Bank of Hyderabad Ordinance 56)	Ownership and control over the State Bank of Hyderabad were vested in the Reserve Bank of India.	RBI & State Bank of Hyderabad.
10.	1957	The State Bank of India (Amendment) Act, 1957 (22 of 1957)	1) To extend medium-term credit to industries in the private sector and to assist the process of industrialization envisaged in IInd Five Year Plan 2) to advance loans for periods exceeding 6 months but no exceeding 7 years. 3) to subscribe and hold shares or debentures of any financial institution notified by the Central Government (e.g. subscribing to the share capital of Refinance Corporation) 4) to make advances to Cos. engaged in financing of hire-purchase transactions on the security of book debts -	SBI
11.	1959 (1-10-59)	The Banking Companies (Amendment) Act, 1959	Empowering the banking company to pay dividends on its shares without writing off depreciation - Introducing degree of flexibility in regard to the use of Reserve Fund - Allowing the R.B.I. to apply for the winding-up of a banking company if the High Court is convinced that voluntary winding-up proceeding are detrimental to the interest of the depositors.	RBI
12.	1959 (10-9-1959)	State Bank of India (Subsidiary Banks) Act, 1959.	Provides for the Constitution of 8 major State associated banks as subsidiaries of the State Bank of India	SBI subsidiary Banks.

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
13.	1959 (28-8-59)	The State Bank of India (Amendment) Act, 1959	To simplify the procedure in regard to the takingover of the business of any banking institution which the State Bank acquires through negotiations under section 35 of State Bank of India Act, 1955 to facilitate the orderly winding up of the banking institution whose business is acquired.	SBI
14.	1960 (30-4-1960)	Reserve Bank of India (Amendment) Act, 1960.	R.B.I. to act as agent for the Central Government in guaranteeing the obligations of any small scale industrial concern to a bank in respect of loans and advances.	RBI
15.	1960 (19-9-60)	The Banking Companies (2nd Amendment) Act, 1960	To facilitate expeditious payments to the depositors of banks in liquidation - to vest the Central Government & the Bank with additional powers to rehabilitate banks in difficulties. Empowers the R.B. to apply to the Central Government for grant of moratorium to banks and sanction of schemes for their reconstruction or amalgamation with another banking company.	Central Govt. RBI
16.	1961 (24-3-1961)	The Banking Companies (Amendment Act, 1961) Replacing the Banking Companies (Amendment) Ordinance 1961	The ordinance promulgated on 4-2-1961, enables the compulsory amalgamation of a banking company with the S.B.I. or its subsidiaries - It also enabled amalgamation of more than 2 banking companies by a single scheme of amalgamation (Act 45). inserted	

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
17.	1961	The Deposit Insurance Corporation Act, 1961	Provision of insurance for the protection of depositors, particularly smaller ones, covers all commercial banks, fixed five months within which payment to depositors must be made.	DTC
18.	1962 (16-9-1962)	The Banking Companies (Amendment) Act, 1962	To raise the minimum paid-up-capital of Banking Companies from Rs.50,000 to Rs.5 lakhs transferring to reserves not less than 20% of their balance of profit on the part of banking companies.	
19.	1963	Banking Laws (Miscellaneous provisions) Act, 1963.	1) Amends the Reserve Bank of India Act 1934, 2) " " Banking Companies Act 1949. 3) " " State Bank of India (Subsidiary Banks) Act, 1959. To enhance the R.B.I's powers over commercial banks - a) to restrain control exercised by particular groups over the affairs of banks. b)to restrict loans & advances given by banks on behalf of any one co, firm, association or individual; particularly those controlled by the Bank's Directors. c)to give greater control to R.B.I. over appointment and removal of banks executive personnel.	
20.	1963	Banking Laws	d)to reduce the maximum voting rights of individual shareholders of banking companies including subsidiaries of the S.B.I. from 5% to 10% of the total voting rights of all shareholders - so that control may be diffused.	

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
21.	1965	Credit Authorization Scheme	Required prior approval of the RBI for granting any fresh credit limit of Rs. one crore or more to any single party or any limit which raises the existing order to this level by the entire banking system	RBI
22.	1968 (1-2-69)	The Banking Laws (Amendment) Act, 1968	To amend i) the Banking Regulation Act, 1949, for providing for the application of social control over banks, (ii) The Reserve Bank of India Act, 1934. (iii) The State Bank of India Act, 1955. The Act requires every banking company. a) To reconstitute its Board of Directors so that not less than 51% of the Directors have special knowledge of banking. b) Directors should not have a substantial interest or be employed in industrial undertakings. c) Professional banker and not an industrialists as the chairman. The amendment to S.B.I. Act, 35 enables the S.B.I. to grant loans for periods not exceeding one year at a time instead of 6 months. Maximum period:- 10 years (Under Section 33).	
23.	1968	National Credit Council, February 1968	For discussing and assessing credit priorities on all-India Basis; for credit planning by assessing demand for bank credit, determine priorities, to co-ordinate lending and credit policies and fix minimum targets for bank lending to priority sectors.	

Sl. No.	Year	Policy Measure	Brief Summary of the Measure	Implementing Authority
24.	1969 (19-7-69)	The Banking Companies (Acquisition & Transfer of Undertakings) Act 1969. Replacing the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance 1969	Nationalization of 14 major Indian scheduled commercial banks in the private sector having deposits of Rs.50 crores or over each - Undertaking of each of the 14 banks (its assets, liabilities rights etc. was transferred to and vested in the corresponding new bank which became a new statutory body.	Held Void by the Supreme Court.
25.	1970	The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970	For removing the defects in the 1969 Act, in keeping with the Supreme Court Judgement, compensation amount specified.	
26.	1970	Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970 - Under Sec. 9 of the above Act.	Constitution of full-fledged Boards of Directors of the Nationalized banks, appointment of Chairman formation of Managing and other Committees, laying down the procedure for appointment of directors.	

Source: Compiled from RBI Annual Report, Report on Currency and Finance, and India Code, and Annual Reports of the Ministry of Finance, Government of India, RBI, Report on Trends and Progress of Banking in India (various issues)

Nationalisation of the Coal Industry in India.

(A part of the Report on the ICSSR Project on "Nationalisations in India's Non-Agricultural Sector since 1947 - A Study in Policy Options")

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Nationalisation of the Coal Industry in India

Coal Industry was among the important industries which was, in a series of successive measures, brought under total State ownership and control. The present paper discusses the process and forces which played their part in the nationalisation of the coal industry. In Section 1, various legislative steps which led to nationalisation of the whole industry are described. In Section 11, we review the whole series of wide-ranging, direct and indirect controls and regulations and a critical appraisal of their effectiveness. It is also shown as to how the official thinking on the question of controls and regulations evolved. The analysis proceeds in terms of various measures of intervention and the responses to them. This interactive process is intended to bring out the dilemmas and limitations of various schemes of control and regulation, making the choice veer towards nationalisation.

In the next section a brief historical account of the growth, problems and structure of the coal industry is given in the context of various schemes of public intervention. An attempt is made to relate various aspects of the coal industry to the scheme of controls and show how outcomes of these policies tended to diverge from the objectives. In Section IV, in account of

the performance of the industry is given in order to show how scientific mining consistent with national objectives based on the role that coal plays in the Indian economy could not be achieved through any of the policies short of nationalization. In this process, nationalisation appears as the culmination of the process of direct involvement of the State in the affairs of the coal industry from its inception. It has been argued that it was a policy choice inherent in the manner in which the behaviour and performance of the industry interacted with a constant array of measures initiated for dealing with the problems facing the coal industry. Thus many popular notions regarding the so-called political and ideological bases _per se_ for the nationalisation of the coal industry are found to be wanting in supporting evidence. It also follows that the private sector collieries were, neither of their own nor through direct and indirect State regulation, showing performance and behaviour which could be considered conducive or contributory to the overall national objectives concerning an important source of energy like coal.

I

Coal industry is among the few in India which have been completely brought under public ownership and control,

except for a handful of captive mines under the control of a private sector steel company. According to 1977-78 data, private sector controlled 1.45 percent of the mines (numbering 6) and produced about 2 percent of coal output.[1] The process of bringing this sector under direct public control began way back in 1956 when Coal Bearing Areas (acquisition and Development) Act, 1957 was enacted in order to provide for "the acquisition by the state of unworked (areas) and containing or likely to contain coal deposits.[2] "The Industrial Policy Resolution of 1955 placed coal industry in Schedule 'A'. According to it, "all new collieries will be state-owned and state-managed, save in exceptional cases."[3]

In 1956, the Singaneri Coal Mines, which was incorporated in 1920, was brought ~~full~~ under public control and its shares were vested in the Central Government and Andhra Government in the ration of 45:55.[4]

The total take-over of the coal industry took place in three steps: Management take-over of 214 coking coal mines and 12 coke oven plants in 1971 by the Coking Coal Mines (Emergency Provisions) Act, 1971.[5] The Act "provided for the take-over in the public interest, of the management of coking coal mines and coke even plants pending nationalisation of such mines and plants."[6] It was pointed out that the "highly fragmented" structure of coking coal mining was

adversely affecting scientific mining and conservation.[7]

These mines were nationalised by the Coking Coal Mines (Nationalisation) Act, 1972, (No.36 of 1972). The stated objectives of the Act were to reorganise and restructure "such mines and plants for the purpose of protecting, conserving and promoting scientific development of the resources of coking coal needed to meet the growing requirements of the iron and steel industry and for matters connected therewith or incidental thereto."[8] This take-over became effective from First May 1972.

Nationalisation of the remaining non-coking coal mines, was effected by means of the Coal Mines (Nationalisation) Act, 1973, which transferred with effect from May 1, 1973 the rights, titles and interests of the owners of those coal mines, to the central government.[9] Thus the Act did not nationalise the companies or firms operating coal mines. It took over the assets, stores and stocks of coal of the companies engaged in coal mining.

The stated objective of the Act was to affect this transfer to public ownership "with a view to reorganising and restructuring such coal mines so as to ensure the rational, co-ordinated and scientific development and utilisation of coal resources consistent with the growing requirements of the country."[10] Thus, from the take over

of coking coal mines in the interests of iron and steel industry, the scope of nationalisation was widened to cover the entire industry statedly in the overall interests of the economy as a whole.

As a result of these measures, the Act shows that a total of 937 coal mining units were taken-over by the state. These included some very big corporate units, including some sterling companies as well as some rather small-sized, proprietory and partnership firms. Out of those 937 coal units, 417 were joint stock companies with a paid up capital, on the eve of take-over, of Rs.270.27 crores.[11] For all these units a compensation of the order of over Rs.47.93 crores (Rs.17.58 crores to coking coal and Rs.30.34 crores to non-coking coal mine owners) was paid, in addition to management compensation at the rate of 0.25 paise per tonne of coal produced during the period from management take-over to nationalisation.[12]

However, since the process of nationalisation was staggered over a period of over two years, the first step of management take-over to coking coal mines amounted to serving notice to the coal mine owners that the days of the industry under private ownership may be numbered. This combined with the poor financial performance of the coal companies for the past few years,[13] nearly stagnant

production,[14] rising costs of production and inability to obtain a good price, led to a big increase in the total debt of the coal mine owners to Rs.300 crores.[15] Since the nationalisation Act provided that "Every liability of the owners of a coal mine in respect of any period prior to the appointed day shall be the liability of such owner and shall be enforceable against him and not the government," the nationalised coal mines were spared of this burden. However, the time taken in completing the process of take-over may have given "them sufficient time to withdraw whatever assets they could, from the industry".[16]

Not only was the coal industry included in Schedule A of the 1956 Industrial Policy Resolution, which gave the State substantial stakes in this industry, but even in terms of the Industries (Development and Regulation) Act of 1951 the State assumed the right to move to acquire control of the coal industry as "coal, lignite, coke and their derivative" were included as items 2(1) of its First Schedule, empowering government control over them in the public interests.[17] Similar rights were available to the government under the Mines and Minerals (Regulation and Development) Act of 1957 and an amendment to it passed in 1972 which provided for premature termination of mining leases and the grant of fresh leases to government companies or corporation owned or controlled by government.[18] In pursuance of

this policy in 1956, the Government set up the National Coal Corporation with a nucleus of 11 state-owned collieries and with exclusive power to open new collieries.[19]

The nationalisation of coal mines was not an act to provide for the take-over of the known and existing coal mines alone. The nationalisation of the right to coal mining was also provided for by the Coal Mines (Nationalisation) Amendment Act of 1976.[20] In view of large scale unauthorised, reckless, selective slaughter mining, it was provided that no person other than the Central Government or a government company, or a corporation owned, managed and controlled by it, except Iron and Steel manufacturing companies, or in the case of very tiny mines where the coal produced will not be required to be transported by rail, shall carry on coal mining in India in any form. Any violation of this provision was punishable with imprisonment for a term which may extend upto two years and fine upto Rs.ten thousand.[21] Thus the nationalisation of coal mining is on a different footing from many other total industry-wide nationalisations in the sense that the future right to carry on private coal mining has been

done away with. It is similar to the provision in insurance companies, both life and general, take-over laws. The coal industry employed some 3.82 lakh workers in 1971 at the time the process of its take-over was initiated, with Bihar and West Bengal, Madhya Pradesh and Andhra Pradesh accounting for an over-whelming number of workers, ranking in the order in which the names of the States appear.[22] In sum, through a protracted process and in instalments, the process of bringing coal mining under public ownership and control was completed in 1973. A large number of writs challenging various provisions of the nationalisation law[23] and many operational problems necessitated a number of amendments to the main Act.

Coming after the 25th amendment to the Constitution, which did away with the compulsion of satisfying likely judicial review, the compensation issue to the former coal mines[24] did not pose difficult problems. The compensation principle adopted was one of physical valuation of the stocks, stores and assets of each company.[25] Some members of Parliament considered the amount excessive, in view of the poor record of the former coal mine owners and the raw deal they gave to

coal labour.[26] There was also a view which considered the amount "grossly inadequate" and discriminatory in favour of the foreign coal companies.[27] In general, it appears that care was taken to see that the amounts given in compensation do not appear expropriatory or punitive. In view of continued role of and reliance on private enterprise such a concern appears understandable, even if it invites adverse criticism from certain quarters.

II

Nationalisation of the coal industry was the culmination of a whole series of wide-ranging, detailed physical and indirect controls and regulations which came into being since the pre-Second World War period.

"Almost upto 1939, when Regulation 77 of the Indian Coal Mines Regulation came into force, the producers of coal had an absolutely free hand in producing coal from wherever they could and in any manner they thought best.

During this period of absolute *laissez-faire* profits was the primary consideration, safe methods were

in the picture only here and there and national interests were completely forgotten. The industry and the country are today paying the price for this ruthless and haphazard exploitation of this national wealth during those days. Mining rules had, therefore, to be tightened up. Gradually controls were introduced but even then, the measures of control are only being circumvented and the owners, by themselves, have done very little to cooperate in the policy of greater safety in coal mines and the conservation of good quality coal".[28] However, coal mining even then was not the exclusive preserve of the private sector.

In fact, the very beginning of coal mining in India owed considerably to governmental efforts and initiative. Quoting the Coal Mining Committee, 1937, it has been stated that in 1814, Mr. Rupert Jones was asked to examine the Raniganj area. "With Government assistance, he opened mines at Egora village near Raniganj, which were taken over and worked until 1835 by Massers. Alexander & Co., and later by Messers Carr, Tagore & Co., both of Calcutta".[29] Then as early as 1920, the Government appointed the Coalfields Committee, to study the problem of the coal industry. The public interventions in coal owed significantly

to the fact that its production and supply was closely related to the supply of railway wagons, because geographically concentrated coal had to be moved to the consuming centres. The railways which play an important part in coal supply are also an important user of coal. The development of coal mining and railways has been, therefore closely interconnected. It is this linkage of coal to railways and wagon supply which was "one of the over-riding reasons for subsequent price and distribution control".[30] Thus, coal industry, though in the private sector, had from its very inception strong linkages with the governmental activities and direct support.

Beginning in the second quarter of the nineteenth century, the coal industry in India experienced a process of slow, volatile growth, catering both to internal and external demand. Its output and prices fluctuated, particularly in the wake of the great depression of 1930s. In the face of such problems, the government appointed The Coal Fields Committee in 1920. The Committee maintained that the State has right, in the interest of the community, to step in and prevent the dissipation of the country's resources.[31] The government did not accept this

view and held that "the colliery interests were at liberty to extract the coal by whatever methods were permitted under their leases, however, wasteful."[32]

The problems of transportation of a bulk commodity, like coal, and its storage at various points increased the capital requirements for construction and storage. As Papendieck maintains, "Parallel to this development, the total freedom of the companies' decision-making came to an end. Raising contracts and leases began to contain specifications about the quantity and quality of coal to be raised. Royalties were tied to the actual output of coal, whereas money rents for leases had previously been tied to the area of the surface land covered by the lease ------ the turn of the century saw the beginning of government regulations for the coal mining industry, introducing some measures necessitating investment to meet safety standards."[33]

However, the experience of the 1930s with wide fluctuations in prices led the government to appoint the Coal Mining Committee in 1936 (with C.B. Burrows as Chairman) to examine questions of methods of coal mining, safety and conservation. As a result of the recommendations of the Committee, the Coal Mining Stowing Board was set up in 1939. Its purpose was to grant stowing subsidy to coal

mines in the interests of conservation of coal resources.[34] Prior to this in 1936, a special rebate in coal 'freight' and port terminal charges was given to help the industry.[35]

Major public intervention in coal mining started with the beginning of the Second War.[36] Following the recommendations of the War Resources Committee, the Government promulgated the Colliery Control Orders under the Defence of India Rules to regulate the production, distribution and prices of coal. Later on, this order was made more comprehensive and brought under the Essential Commodities Act. These measures were continued under the Essential Supplies (Temporary Powers) Act 1945.[37] These measures were aimed at fixation of the prices of various grades of coal, regulation of distribution of the prices of various grades of coal, regulation of distribution of coal and production or limitation of mining of some specific grades of coal. It was decided to draw coal supplies for the railways from each colliery according to a pre-determined percentage of available raising so that the orders are dispersed to the entire industry. The Coal Commissioner's Organisation, set up in April, 1944, was the administrative agency for implementing these controls. It also looked after the allotment of wagons to various coal mines. It evolved a system of "wagon allotment with reference to economic utilisation of coal quality-wise among various industries"

and eased the scramble for wagons.[38]

Coal being a labour-intensive industry, in which roughly about 60 percent of the cost of coal is accounted for by labour costs,[39] and in which pernicious labour practices like contract labour system and a system of bonded labour were prevalent, it became essential to regulate conditions of labour and wages.[40]

In the early phase of the growth of coal industry, mainly upto 1920s, but to some extent upto 1940s, two methods of obtaining labour supply for coal mines prevailed.[41] First, the major coal companies acquired Zamindari rights over non-coal bearing lands. The peasants settled on such lands were obligatorily made to work in the mines. Second, the coal companies made arrangements with local zamindars for the supply of workers. Coal mining was dependent on migrant labour particularly after 1920s.[42] Later on, direct or Sarkari recruitment and indirect recruitment through raising contractors was adopted, with the later assuming greater importance. The terms on which labour was hired under these arrangements were such that they resembled the conditions of labour acquired under various systems of non-economic coercion. In order to meet the shortage of labour in the face of mounting demand for coal in the wake of the Second War the mine owners introduced, with government approval, the Coalfield Recruiting Organization (CRO). It was a pernicious

system of forced labour restricting free mobility in which the workers were denied trade union rights and were housed in barracks.[43]

These conditions of labour necessitated State intervention of various kinds. The state entered the scene primarily to ensure adequate and controlled labour supply to the coal mines. This generated the reciprocal necessity of ensuring fair wages, reasonable amenities and safe working conditions. In 1946, the Government constituted a conciliation Board for dealing with issue connected with wages. Later on, wage awards were made in order to determine wage rates in the coal industry. Important among these wages awards were All India Coal award 1956 and Dasgupta award, 1957. In 1960, wages in coal industry were changed through arbitration.[44] In 1947, a Coal Miners welfare Fund was set up. It was financed by a compulsory levy of 5 paise per tonne of coal output. In 1948, the Coal Mines Provident Fund was established.[45]

Since the industry's problems continued to persist, particularly owing to lack of adequate wagon supply for coal movement,[46] replacement and modernisation of coal mining equipment arising out of depression and war time conditions, price, distribution and production controls were clamped. The combined effect of these developments was seen in the form of acute scarcity of coal during 1942-45. It was in

this setting that the government set up the Indian Coal Fields Committee to suggest measures for dealing with the problems of the industry. In its report, it emphasised importance of rational mining and conservation, particularly of coking coal. For increasing coal production it underlined the role of more positive State action. It also recommended that in place of the Coal Commissioner's Organisation and the Coal Board, one unified agency for ensuring conservation, safety and development of coal mining should be set up.[47]

The Mineral concessions Rules issued under Mines and Minerals (Regulation and Development), Act, 1948 continued to govern coal mining. It was indicated that the recommendations of the Indian Coal Field Committee, 1946, in general would be followed. The policy direction for coal industry came to be further clarified in terms of the Industrial Policy Resolution of 1948. It enunciated increased role of government in coal industry. This resolution emphasised the inherent right of the government to acquire any existing industrial undertakings, including those engaged in coal mining, putting the private units on probation for a period of 10 years. It was further stipulated that setting up of new units would be the responsibility of the State, except where the State itself found it necessary, in the national interest, to make

exceptions to this stipulation.[48] The Coal Bearing Areas (Acquisition and Development) Act, 1957, reserved the virgin areas for the public sector for their future development. However, it was provided that operating private collieries could work immediately contiguous areas under government permission. Thus private sector additional coal output was to come from existing and contiguous areas only.[49]

Given the general tenor of policy defined in the Industrial Policy Resolution, 1948, a specific action concerning coal was the setting up of the Metallurgical Coal Committee in 1949. On the basis of its recommendations, the Coal (Conservation and Safety) Order, 1952 was issued. This order was replaced in 1952 by the Coal Mines (Conservation and Safety) Act. Under this Act, the Coal Board was set up in order to exercise control over coal production, distribution and price and to provide technical data and advice for the formulation of coal policies. It also replaced the Coal Mines Stowing Board. The Board is financed by a cess imposed on all coal mined in India. The Coal Board discharged its functions through its Conservation and safety Wing, Ropeways Wing, Utilisation. Research and Extension Wing and Finance and Accounts Wing. However, the office of the Coal Commissioner created in 1941, was also allowed to continue.[50]

Meanwhile, the Industries (Development and Regulation) Act 1951 was made applicable to the coal industry by including it in the First Schedule of the Act. The Act required registration of existing undertakings and licensing for new ones; it gave powers to government of investigation and inspection, of assuming management in certain specified cases, to control production, prices and distribution and to promote the development of the industry. The Coal Commissioner was made the recommending and progressing authority under the Act.[51] Thus the Coal Industry became subject to multiple controls on almost all aspects of its operations.

Coal is a product with many different grades like coking or metallurgical coal, soft coke and non-coking coal/hard coal with many different grades. Despite the high premium on coking coal needed for steel making, until 1955 there was no price differential between various grades of coal. In 1962, a scheme for grading of coking coal into 12 grades was introduced and an analogous price structure was announced. The main method of control was to peg the output of coking coal to a certain level. From April, 1948, a cut of 50 percent was imposed on the supply of selected "A" and "B" and grade I coal from the Bengal and Bihar coal fields, to the cotton mills.[52]

Compulsory stowing was also introduced. Subsidies were offered to meet the expenses of stowing. The subsidy was financed by a cess on coal. While the collieries complained of inadequacy of the subsidy to cover the cost of stowing, public agencies generally felt that the subsidies were claimed without incurring actual expenditure.[53] For grading of coal, the Indian Coal Grading Board was formed and in 1944 this function was transferred to the Coal Commissioner[54] and subsequently to the Coal Board. In 1956 the Coal Council of India was constituted under the chairmanship of the Minister dealing with coal for policy formation and estimation of coal requirements during the Second Plan.[55]

Thus instead of the use of prices for influencing the extent to which various grades of coal were made use of for different purposes, the government used direct, physical control on the levels of output. Even if these controls were effective in controlling the level of coking coal output, the use by different consumers of coal of higher grades than was necessary for their specific needs was left uncontrolled. No producer had the incentive to refrain from the use of superior grades of coal. Similarly, since the production of coal of different grades was not compensated differentially according to their cost of production, no mechanism was introduced to reinforce the physical controls by built-in price incentives.[56] However,

the government persisted with the price controls, supplemented by controls over production and distribution. In fact, in 1955, these control measures over coal were made a part of the Essential Commodities Act.

These controls over coal saw some important instances of extending themselves to cover property rights and assumption by the government of direct ownership and management rights. A group of coal mines in Andhra Pradesh were brought fully under the control of the government of Andhra Pradesh, with the latter 55 percent shareholding. As seen earlier, in order to give effect to Industrial Policy Resolution 1956 which made the future growth of coal a governmental responsibility, unworked coal mining areas were brought under government ownership by the Coal Bearing Areas (Acquisition and Development) Act, 1957. A nucleus of public ownership and control was made available in the form of setting up of the National Coal Development Corporation in order to administer the existing collieries in the hands of the State as also to look after these to be acquired to future. The NCDC started its operations with the existing 11 state collieries.[57]

Many problems continued to plague the coal industry like lack of differentiation in prices between different grades of coal,[58] slaughter mining and wastage of precious coking coal. Attempts at conservation conflicted with those aimed at safety. The Chief Inspector of Mines was the agency

which implemented the provisions of Mines Act, 1952 and the Coal Mines Regulations, 1957. This Act has the objective of regulating the conditions of labour and of enforcing safety rules in mines, including coalmines. The Act deals with safety and some of the welfare aspects of labour engaged in mines. It lays down criteria to be followed in respect of specifications and extraction of coal, inspection by supervisory staff, general safety conditions to be followed in matters of ventilation, gas omission, electric appliances, coal dust, etc. The DGMS (Director General of Mines Safety) is charged with the responsibility of administering the Mines Act and regulation made thereunder. It has been maintained that "the functions of DGMS can some times prove detrimental to the conservation aspect."[59]

The function of safety and conservation are so inextricably inter-mingled[60] that only a consistent set of considerations, procedures and regulations can deal with them. Such an integrated approach was made difficult, among other reasons, by the multiplicity of agencies looking after control, regulation and development aspects of coal industry.[61] It was in view of the close inter-relation between safety and conservation aspects that the coal mines (conservation and Safety) Act, 1952 provided for both. "Under Section 13 of the Act, both the DGMS and officers of the Board are empowered to take steps for ensuring safety and conservation in Coal Mines."[62]

As a result, the DGMS has acted only under the Coal Mines Act and Regulations and the Coal Board has also acted in isolated cases only.[63] In general the administrative arrangements could not go far in promoting conservation and safety as many studies of the coal industry brought out.[64]

The failure to ensure conservation of coking coal was really very serious. Coking coal production, in both the public and private sectors has ranged between 15 to 18 million tonnes during 1960-1973. It constituted between 20 to 30 percent of total coal production. Out of this production, excess production of coking coal over metallurgical requirements was of the order of 5 to 11 million tonnes.[65] Total wastage of coking coal for non-metallurgical purposes for the period 1956 to 1969-70 amounted to nearly 100 million tonnes. As the Indian Mining Federation, an organisation of private coalmine owners put it, "When coking coal production was in the private sector, there was an over-production of 5 to 6 million tonnes a year with the result that there was wastage of coking coal and that had to be used for non-metallurgical purposes".[66]

A major factor which stood against the interest of both conservation and safety was the widespread existence of small and uneconomic mines belonging to the unorganised sector.[67] In fact, the Estimates Committee of the Lok Sabha

went into various aspects of coal industry in 1954-55. Its fifteenth Report analyses the problems of coal industry. It highlighted the technical backwardness, limited size of fresh capital inflow, poor working conditions and labour relations, lack of private initiative, neglect of stowing, neglect of safety measures and reckless exploitation of coal mines.[68] Favouring nationalisation of the coal industry, it suggested that pending nationalisation the private sector may be allowed to continue to run the collieries only if it can guarantee adequate inflow of capital, scientific methods of raising coal with suitable safety measures and improvement in the working conditions of labour.[69]

The Estimate Committee also suggested that all new collieries should be State-owned and State-managed and all the collieries producing metallurgical coal should be under the State sector. It suggested that the private collieries which default in the implementation and enforcement of public regulations should be taken over.[70]

Since many of the problems besetting coal industry appeared to be structural, related to the existence of non-viable small mines, the government appointed in 1955 a Committee on the Amalgamation of collieries with Shri Balwantrai Mehta as its Chairman. The Committee examined

the structure of industry and showed the extent to which coal mining was fragmented. It noted that fragmentation has gone so far that there was working of different seams within a single property by different proprietors who had taken them on lease as managing contractors. In the past, the practice of production through raising contractors had caused considerable damage to coal resources. It also examined the case of non-contiguous collieries and showed how owing to absence of deep mining and prevalence of quarrying, wasteful and unscientific mining was going on.[71] Therefore, it recommended compulsory amalgamation of collieries which were either not producing in the region of 10,000 tons per month or had an area of less than 100 acres with one or more collieries by a central government legislation.

Though in principle the recommendations were accepted, it was feared that immediate legislation may produce unsettling effects, hampering the realisation of plan targets. Therefore, a scheme of voluntary margers was initiated in 1958 by setting up the collieries' Voluntary Amalgamation Committee. According to the 33rd Report of the Estimates Committee, the committee approved 42 schemes of amalgamations and rejected 100 schemes because they were not found feasible either economically or technically. Some of the

applications for mergers were not accepted because they "envisaged opening up of new areas" for private mining.[72] Actual amalgamations took place in 25 cases only. Even when area-wise efforts for amalgamations were initiated, much headway could not be made.[73] Thus the problem of small sized, fragmented mining, incapable of scientific, largescale, safety and conservation conscious coal mining persisted.[74] Since compulsory amalgamation was not attempted out of its feared unsettling effects and voluntary mergers could not make any noticeable impact, the defective structure of coal industry in India persisted.

Meanwhile, the demand for coal, particularly of metallurgical quality coal, went up in response to the industrial, particularly steel and power, programmes of the Second Plan. In 1956, coking coal consumption by steel plants was of the order of 3.4 million tonnes. Following the steel programme of the Second Plan, it went upto 7.7 million tonnes and further picked upto 11.2 million tonnes by 1970.[75] Apart from the private sector, the National Coal Development Corporation was to be the agency for producing additional coal according to plan targets. In terms of the IPR - 1956 new capacities were to be operated under the public sector collieries only.

However, the Thirty Second Report of the Estimates Committee of the Third Lok Sabha reported in 1962-63 that "since the middle of 1956, the Central Government had given its approval to the private sector of the coal industry to develop new areas in 49 cases in the various States, viz., ten in Assam, eleven in Bihar, fifteen in M.P. and thirteen in West Bengal.[76] Though it was suggested that in deciding these cases a set of five criteria[77] were applied, it was found that in 24 cases the areas were non-contiguous. The Estimates Committee was informed "that government took a pragmatic view of the Industrial Policy Resolution and interpreted it rather liberally".[78] It is often pointed out, that during the Second Five Year Plan, the shortfall in coal production target was entirely owing to the NCDC falling short of its targets and it was made good by the private sector overstepping its share.[79] In this outcome, the role of pragmatic approach to and rather liberal interpretation of the IPR-1956 with respect to coal industry is generally ignored. Despite the restrictions inherent on private coal mining, the Second Plan gave a very high target to private sector, which it overstepped. The Government's attitude in this respect was that of seeking higher production[80] while the private sector thanked public sector for the shortfall by about 6 million tonnes which "perhaps saved the industry from the initial glut."[81]

During the Third Plan period, the NCDC planned to develop 27 new collieries, but actually developed 16 only, out of which seven were closed down due to slump in demand.[82] The original Third Plan target of 97.32 million tonnes, subsequently raised to 104.7 million tonnes, was eventually slashed down to a modest level of 76.5 million tonnes, owing to poor demand and probably, wagon shortage as ascertained in the course of mid-term appraisal. Even this target was not achieved, with a shortfall of the order of nearly 10 million tonnes. Slow down in industrial growth and dieselisation in railways contributed to the depressed demand for coal.[83]

The controlsover the coal industry were materially affected by the fact that it has three bulk consumers, viz., steel industry, power generation and railways, accounting for over 62 percent of the coal produced in India.[84] Bulk of this demand originated from public agencies. Apart from the need to conserve coking coal and ensure adequa supplied of coal at reasonable prices all over the country, owing to geographical concentration of coal production, and in view of nearly persistent shortage of wagons which necessitated distribution controls in the form of wagon allotment, and affected the demand - supply balance in the market for coal, price controls also bore the affect of

governmental agencies consuming over three-fifths of toal coal. It can be said that this factor introduced some kind of lower side bias in the controlled prices of coal fixed by the government. This is best illustrated by the fact that even after nationalisation of coal mining, the downward bias of administered prices of coal is continuing, leading to a hidden subsidy in the form of lower prices of the order of Rs.15 to Rs.20 per tonne.[85]

Price controls impose the necessity of arriving at prices which are reasonable on economic considerations and meet the objectives of price controls. Following the increase in wages as a result of the Conciliation Board Award in 1947, the Nayak/Bhattacharjee Committee to ascertain the costs of coal production was set up in 1946.[86] After that changes were made in coal prices from time to time to allow for higher wages, by and large in an <u>ad hoc</u> manner.[87] For a thorough study of the coal costs structure, the government appointed in 1957, the Coal Price Revision Committee. It carried out a detailed study of the normal cost of production of 26 representative coal mines and recommended a price allowing a rate of return of eleven percent on the average outlay. The price suggested by the committee was a general increase based on normal

representative average cost and except for a little higher price to outlying coal fields, it did not differentiate between the various grades and was to be changed only to accommodate the increases in wage costs which came about through public regulation.[88] Every round of Wage increase was followed by a demand for price revision and, with a time-lag, it was generally granted. By and large, the CPRC pricing formula continued to remain in force except for a minor change suggested by the Study Group on Coal Prices for Bengal and Bihar coalfields.[89] In 1966, the Tariff Commission made a comprehensive study of the cost of production of coal and suggested a price increase based on cost plus pricing formula. It also considered price differentials based on the thermal value of coal, though it was felt that existing gradations of coal allow for this aspect.[90]

This pricing formula, as different from the fact of price control as such, was highly one-sided. Not only its widely acknowledged limitation in ignoring grades-differentiation,[91] but the very basis of cost-based pricing has two serious limitations. One, a very general one, but nonetheless important, limitation of this pricing principle was that it neglected the demand side. It means controlled prices were, by and large, supply prices. In a market economy, many distortions are caused by letting supply

prices obtain. Two, a more specific limitation of imposing an average normal cost plus pricing (i.e., average cost plus a certain uniform rate of return) in an industry as differentiated as coal in terms of scale, size, ownership and management practices, geological conditions, technology, grades and quality, distance from consuming centres, etc., was the difficulty in choosing a representative sample. Such an average, representative price, in any case, would have built-in discrimination vis-a-vis different units. It will produce adverse unintended effects on coal mines having lower as well as higher actual cost of production than the average industry-wise cost. Such pricing formula can work only in those industries which are fairly homogeneous in aspects having a close bearing on the cost of production.

Such pricing practices generate differentials regarding rates of return and size of surpluses in the hands of mine-owners, non-functionally effecting the capacity, willingness and incentive to go in for further investment and technological changes. In the case of coal, it allowed the small, unorganised sector mines to survive in uttar disregard of the needs of conservation and systematic development of coal resources and the interests of the workers. This generated additional pressures on the larger and organised sector mines to legally or otherwise adopt the practices prevalent in the unorganised sector.

One possible reason as to why such pricing principles were adopted and continued, we have suggested, was the fact of governmental agencies being the largest single major consumers of coal. Another reason may relate to coal being a critical intermediate input without economical and effective substitutes. Hence there is obvious need for public control over its price since it affects the general cost structure in the economy. With tight public control on wages and working conditions, with wages constituting about 60 percent of cost, uncontrolled prices became somewhat untenable. Then, a very high price may lead to such a high level of production, that the quick a depletio of its reserves may come about. Such prices as build up pressure for large production may also encourage excessive production and wasteful mining practices.

However, the above factors do not argue an unequivocal case for low coal prices. Apart from preventing capital formation and scientific mining with a balanced consideration for the twin ends of conservation and safety,[92] it prevents deep mining. Uneconomical prices may also produce many other intra as well as inter-industry and technological distortions. But the process of arriving at balanced price, reconciling conflicting considerations, is inherently very difficult for as highly differentiated and heterogenous an industry as coal.

Geographical concentration of coal and the locational pattern of user industries create a good deal of pressure on the means of transport, particularly for a relatively low priced bulk commodity like coal. Coal movements constituted over one-third of the total goods traffic originating on the Indian Railways.[93] As a result, price control over it has to be supplemented by distribution controls. In any case, the capacity of the railways to carry coal becomes an effective control over distribution even in the absences of formal control over coal distribution. Thus the policy choices facing the government with respect to coal were fairly complex.

The tables III & IV show the position of wagon availability and yearly stocks of coal. It can be seen that the wagon supply did not grow at a rate commensurate with the growth of production. Annual allotment of wagon ranged between 1.17 millions in 1964 to 1.90 millions in 1962. Therefore, upto 1970, it exceeded 2 millions, and was 2.38 millions in 1969-70. During this period coal production increased from less than 37 million tonnes in 1954 to cover 75 million tonnes in 1969-70. Thus, one can see that wagon supply failed to keep pace with the increase in production. This is also reflected in the growth of pitheads coal stocks which increased from less than 3 million tonnes to about 7.8 million tonnes towards the end of Sixties. Despite many efforts

by the railways the wagon shortage persisted and, through wagon allotment, amounted to informal control over coal distribution.[94] The difficulties arising from coal shortage were increased by many rounds of increases in the freight for coal in 1952, 1962, 1966, 1968 and 1970. In the year 1970, the freight on coal for long distance went up by over 100 percent. Despite the hike in freight, the wagon shortage could not be alleviated.[95]

It is true that control over coal prices, distribution, production, grading, etc. began as war-time necessities but they survived the War, owing to some inherently complex compulsions mentioned above. But the nature, form and extent of controls also did not yield easy choices, as we have discussed above. Government's own direct financial stakes as the major consumer also introduced complications. The need to control wages and working conditions also influenced these decisions. The fact that Railways were not only a major consumer, but also played a key role in transporting coal, particularly to Western and North-Western India, generated complexities. A good many committees and study groups enquired into these questions but the complexities of the industry prevented the emergence of solutions reconciling conflicting considerations.

This conclusion is reinforced by the experience of decontrol of coal prices and distribution. The CPRC (1957) suggested decontrol on both prices and distribution of hard

coke, which were to be introduced gradually by the government.[96] Partial relaxation of distribution control was made effective from July 1964 with respect to grade II and III coal and soft coke. However, the railways continued to put restrictions on coal movement. In 1966, prices and distribution of hard coke were freed from controls.[97]

Instead of raising controlled prices as recommended by the Tariff Commission in 1967, the process of removing controls was carried further in July 1967, when all price and distribution controls from coal other than metallurgical coal were done away with. The coal controller continued to look after the supply of coal to metallurgical industries and essential consumers like defence.[98]

Even after formal decontrol, a good deal of public control over coal distribution and prices survived. This was owing to the specific conditions concerning coal. For one thing, movement of coal was a major responsibility of the Railways and the latter had only a limited capacity to effect coal movements. Then there was also a pressing need to obtain economy in coal movement by ensuring that coal is transported from the nearest source to place of consumption in order to eliminate cross movements. The Railways may even have to explore the possibility to see if the return

movement of emply wagons could be put to use to meet some essential transport requirements. Further, a free for all scramble for limited means of transport may put undue strain on essential and priority consumers of coal, while lower priority users may, on account of market forces, make a greater draft on limited wagon capacity.

As a result, the Railways continued with their rationalisation scheme and the system of sponsorship of demands. "Basically, this involved various State Governments to indent for or to sponsor requirements of soft coke, of coal for brick burning and coal required by industries. The demands for coal of the steel industry and power stations were certified by the concerned technical authorities. Demands made by defence had priority over others."[99]

The process of gradual decontrol of coal distribution reinforced the possibility for informal survival of public control. In the wake of freeing of lower grades of coal from the control exercised by the Coal Controller "such indents placed upon the Railways increased suddenly and far exceeded either past movements or the production in Bengal-Bihar coalfields. These demands were speculative, and it became impossible for the Railways to meet these highly inflated demands."[100] In consequence, Railways

governed coal movement by the "Preferential Traffic Schedule", laying down certain quotas from time to time for certain types of coal, in accordance with the sponsored movements. Linkage Committees were set up to coordinate demands and movements of Defence, Power, Steel, Cement and Railways. For others, wagon allotments were done on an ad-hoc basis guided by past despatches.[101] In sum, "the distribution of coal gets restricted by the limitations of movement capacity of the Railways."[102]

In 1967, the Wage Board for coal, constituted in 1963, submitted its report, recommending higher wage-rates, necessitating revision of coal prices. The interim awards by the Wage Board also necessitated price revisions. Probably, with a view to delink wage revisions with price revision, prices of all varieties of coal and coke were decontrolled with effect from July 1967.[103]

The ending of formal price control did not restore market mechanism in price fixation. Since Railways, steel plants and power generating units were the major consumers, controlled prices were replaced by negotiated prices, with Railways playing the leading role in price fixation for all categories of consumers.[104] With a governmental agency like the Railways acting as the price-leader, and the governmental bodies being the largest consumers, decontrol only changed the form and methods of price struggles between coal mines

on the one hand and their bulk consumers on the other.[105]

The decision to decontrol coal prices and distribution in 1967 represented an important landmark in the history of public regulation of coal industry. It brought out the diversity of considerations which weighed with the government. It is clear from the foregoing that even in the absence of formal control, the public agencies had enough leverage in exercising informal control. In fact, formal price control posed some unsavoury dilemmas. Being bulk consumer, any upward revision of prices increased government's own financial burdens, while any downward bias tended to undermine the interests of the industry.

However, owing to trade union pressures, and in order to check spreading labour unrest, Wage Boards became essential, particularly, in view of pernicious recruitment methods and archaic working conditions. The implementation of Wage Board awards necessitated pari passu revisions in controlled prices. Apart from the burdens on public exchequer and the coal consuming public units, such revisions in coal prices entailed politically sensitive price repercussions across the board which the circumstances obtaining in 1967 did not encourage the government to countenance. Hence, by going in for decontrol, the government bypassed the compulsion of granting price increases to the coalmine owners. It also

removed the possible stigma of raising a statutory price, because after decontrol, decisions about the prices at which coal was to be bought became a routine administrative matter, which did not require the sanction of political authorities.[106] But on account of the effective informal channels of control which it possessed vis-a-vis the coal industry, it chose to use the market mechanism for its own monopsonistic power for meeting the compulsion of keeping coal prices under leash. The technical expertise which the Railways possed in matters connected with the cost-conditions in coal industry, owing to its long experiencing of operating captive coal mines, came in handy for carrying out negotiations over coal prices and quality.[107]

The monopsonistic position of coal-consuming public agencies led the coal mine owners to organise themselves into a joint pricing strategy under the auspices of the joint Working Committee (JWC) of various organisations of coal producers by agreeing to quote identical prices.[108] Thus the prices could not be determined solely on the basis of the monopsonistic position of the railways. In fact, during the period 1967-1973, coal prices impressed at rates (annual average being 6.17 percent) comparable to the rate of increase of the prices of industrial raw material and manufactured in intermediate products (being 8.37 percent and 8.61 percent respectively). As the Table V

given below indicates, while coal prices consistently increased from year to year, the prices of industrial raw materials and manufactured intermediate products experienced negative change as well. Then the somewhat higher average rate of price increase in the two cases as compared to coal owes considerably to very sharp spurts in 1972-73.

Thus it would be simplistic to argue that "price decontrol of 1967 marked the beginning of the end of private ownership in coal."[109] This view echoes the judgement of coal consumers Association of India.[110] This position could mean that as a result of decontrol, the rates of return in the industry declined because the industry could not obtain price increases commensurate with the hike in the wage-bill. In order to compensate against the fall in profitability, slaughter mining, neglect of safety regulations, unfair labour practices etc. increased substantially, forcing the government to take over the coal mines.

It may be implied that such an impasse could have weakened the interest of coal mine owners in either retaining their interest in coal or in exercising enough pressure in order to retain the ownership of coal mines. An argument along the lines indicated above neglects the long-term, persistent character of unscientific mining, disregard of safety and conservation norms and sweated labour conditions,

which impelled many analysts, including those included in official committees to a study the problems of coal industry,[111] to suggest that no controls and regulations save nationalisation could provide answer to the dilemmas facing coal mining. The experience of control as well as decontrol over coal prices, distribution, etc. highlighted this aspect and narrowed down the range of policy choices available concerning coal mining. Thus, the experience of decontrol led the government to conclude that just as the controls did not succeed, so did the experience of decontrol also not succeed to achieve the ends of public policy. The policy ends were scientific mining, safety and conservation and healthy conditions of labour alongwith reconciliation of an economical price for coal with the cost implications for bulk public consumers of coal and for the economy in general. This interpretation, however, does not amount to arguing that owing to certain pricing practices followed with respect to coal which reduced the profitability in this business, the private mine owners lost their interest in continuing with coal mining and resorted to what might to called scorched earth practices and forced the government go to in for nationalisation. The fact that the coal mines put up strong resistance to coal nationalisation can be seen in the legal battles they fought in order to get the nationalisation law invalidated.[112] This indicates that

they valued the retention of their coal business under their own private control.

However, following decontrol, there persisted informal control over coal prices and distribution through the role of the Railways in Coal consumption and movement. Direct entry of the public sector, through the activities of NCDC and Singarani Collieries which was controlling a one-third of coal output and had during the Third Five Year Plan expanded its operations by opening 16 new mines[113] also gave the State some additional capacity to increase its capacity to regulate the development of coal industry. The informal price control was supported by a detailed study of coal cost-structure by the Bureau of Industrial costs and Prices in 1971 and formed the basis of loco prices.[114]

The lack of price differential between different grades of coal amounted to an utter disregard of demand and requirements aspects of coal, particularly in view of the critical dependence of the steel industry on metallurgical coal. As a result of the Report of the Committee on the Prices of Metallurgical coal,[115] a certain marginal price differential between coking and non-coking coal was introduced. The price dispute between the coal interests and the Railways was also referred to the Bureau of Industrial Costs and Price.[116]

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During the period following the Second Five Year Plan, a major public initiative in the direction of development of coal industry was in the form of making available to the industry a sizeable U.S $35 million or Rs. 16.69 crores at pre-devaluation rate) loan from the World Bank. Apart from the setting up of NCDC, and the investments made through it in raising coal production, this was the major development initiative concerning coal in the private sector. In contrast to the role of the World Bank vis-a-vis private coal mining, (for which it also secured the understanding that it is not going to be nationalised)[117] public sector coal development was greatly helped by financial and technical assistance from the Soviet Union and Poland.

An industry, which needed modernisation and mechanisation to the extent to which the coal industry did, was sure to get a good boost from such an inflow of resources. This loan, in foreign exchange, enabled import of plant and machinery and, as it was given on a matching basis, the industry mobilished an equivalent amount of investment itself. However, as we discuss in the next section, apart from a somewhat higher degree of mechanisation, and increased output, this injection of capital resources could not answer the problems of duality,

structural imbalance, neglect of safety and conservation norms and sharp labour practices. In fact, distance between the organised and the unorganised sectors of coal industry was increased by the inflow of the World Bank funds as "most of this increase was limited, to the organised sector, and even more so to the 255 mines which had used the World Bank Loan, and accounted for the entire capacity expansion in the Third Plan.[118]

Among developmental interventions in coal industry, it may be important to point out the role of inadequate increase in wagon supply, which continued to lead to stock piling at pitheads and adversely effected the coal industry in particular and the economy in general.

To these difficulties was added another dimension by the fact that the demand for coal is a derived demand. The slow-down in industrial growth after 1965 adversely affected the coal industry, leading to a buyer's market situation. The Tariff Commission (1967) observed that, "the industry had been depressed for the last few years. Large capital investments, including purchase of machinery and equipment by 825 mines (including six new ones) through the World Bank loan of 35 million dollars made available in 1965, incurred to meet an anticipated demand,

which did not eventually materialise, had left many units of the industry temporarily over-capitalised." [119]
Thus the developmental intervention came up against the odds of demand recession and instead of producing the expected results, added to the problems of the coal industry.

Since the experience neither of controls nor of decontrol was too edifying, nor did development initiative push up the coal industry along the path of progress, the process of assumption of direct ownership and control was started with the coking coal mines nationalisation in 1972. We have described the process of phased industry-wide take over of coal above.

The preceding account of the evolution of public intervention in coal industry cannot by itself provide a self-contained and adequate account of why nationalisation of coal was resorted to. However, it attempts to show why government intervened, what forms and methods of intervention did it evolve, the problems which cropped up in administering those controls and regulations, the manner in which various committees and study groups examined these interventions. This account shows as to what kind of alternative mechanisms of intervention presented themselves and how were they responded to by the government

and various other interests involved.

What seems to emerge from this account is that despite some clear and pointed expert advice that the nature of the coal industry and its problems demand no intervention short of nationalisation of the coal industry,[120] a large number of direct and indirect, physical and economic, formal and informal measures were used ever since 1945 when the policy of largely unregulated coal industry was given up. Among other factors, as a result of this experience, ultimately the industry was nationalised in phases. First, the unworked, coal bearing areas were taken up. This was strengthened by strengthening the nucleus of public sector mines by setting up NCDC. Second, the coking coal mines were taken over and at last, the entire industry was nationalised.

In order to understand these policy choices, it is important to review the nature and importance of coal industry, its structure, functioning, growth and performance over this period. On the basis of such a survey we may attempt an examination of the role, rationale and impact of various policy choices, and may be in a better position to explain the decision to nationalised the coal industry on an entire industry scale.

III

Coal is a multipurpose, intermediate mineral product of great importance. It is used for meeting about 40 percent of the energy requirements and for generating about 61 percent of electricity in India.[121] At present India is estimated to have coal reserves of 131 billion tonnes, which are likely to reach 200 billion tonnes in consequence of fresh prospecting. However, coking coal reserves are estimated to be only about 4 per cent of the known coal reserves.[122] Indian coal is of many different grades.

There are many distinctive features of coal industry in India. Power, steel and railways are its major users, accounting for 37.4, 22.2 and 13 percnet of its total off-take in 1977-78[123]. Total public sector consumption of coal would be still greater as coal mines, fertilisers, cement, textiles, etc. which are its major users, have sizeable public sector control respectively. It is among the oldest organised industries in India.[124] It has experienced many fluctuations in its fortunes ever since coal mining was first started in the last quarter of the 18th century at Raniganj in West Bengal.[125]

Given the geographic concentration of coal in nearly

continguesareas of West Bengal, Bihar and Mahya Pradesh, which taken together account for over fourth-fifth of coal output.[126] It is greatly dependent on transportation to consuming centres. This brings in the role of Railways, wagon supply, freight structure, etc. in influencing the effective supply of coal in the country. Even if production of coal is under private sector, its effective supply is mediated by the performance of the Railways, a public sector entity.

Opening up and development of coal mines has been an ad hoc and unplanned activity which took place by taking lease of the coal bearing areas of varying size from the state government at different points of time on the basis of royalty payment. The Indian Coal-fields Committee 1946 recommended the setting up of a National Coal Commission to control and regulate mining leases and royalties, classification of coal, conservation of mines, control over production, prices and exports, etc.[127] In the absence of any well-thought out policy and a co-ordinated agency to control and regulate these matters, coal mines developed in India in a haphazard manner and mines of varying sizes came into existence. As a result, while some large-sized mines, owned and operated by joint stock companies came into existence, both under foreign and Indian control,[128]

there were also a large number of small-sized mines under proprietory or partnership firms. This dual structure, as shown by mines of varying sizes, is an important structural feature of the coal industry in India. Table VI shows the number of coal mines in various sizes groups of production with the number of mines and percentage of production each group.

As can be seen, the number of smallest mines increased from about 19 percent in 1970 to over 30 percent in 1972. In 1972, mines producing upto 5000 tonnes, constituting 61.50 percent of coal mines, contributed only one-tenth of coal output. But the biggest 12 percent of the mines accounted for nearly half of the coal output. The three yearly average figures show that the smallest one-third mines produced a little over one percent of coal output while the biggest one-thenth of mines produced over 2/5 of coal output. This structural aspect of coal industry has imporant implications for understanding the working of coal mines in India. The questions concerning safety, conservation, investment, mechanisation, scientific mining, conditions of labour and growth of coal production are influenced by the existence of a large number of small, non-viable mines.[129] The Government made attempts to reorganise and mines.

restructure the coal industry through voluntary methods; even compulsory amalgamation was suggested by an expert committee.[130] It is also interesting to note that no fiscal, monetary and other indirect methods, nor control over leasing was initiated in order to introduce coal firms of viable size.

But it might also be suggested that the importance of small mines was perhaps overstated. For instance, it has been stated that, "The small mines presented a serious obstacle to the rational and systematic exploitation of coal reserves and to higher productivity through mechanisation."[131] Even if the relative performance of the small and unorganised sector was poor on these counts, the importance of this factor has to be assessed keeping in view the fact that these smaller mines did not control more than one-eighth of total output. The main problem posed by these small mines was that, owing to their utter disregard of scientific methods and selective methods of mining and unhealthy labour practices, they could produce coal at a relatively lower unit cost and produce competitive pressure of a certain none too small magnitude for the organised sector in terms of their lower prices.[132] However, this may be an over-statement in so far as the smaller mines either chose to follow the prices determined

with respect to the organised sector were compelled to fall in line with official prices or loco prices. The pricing principles followed by the public agencies in price fixation during the period of controlled prices (1945-67) based on the CPRC's formula were also not unduly weighed in favour of the smaller units. Thus, it would appear, both on _a priori_ and empirical grounds to be invalid to maintain that "the experience of the unorganised sector, which produced barely 10 percent of the output, effectively determined the nature of price policy for the coal industry."[133] This is simply not understandable in the face of monopsonistic pricing,[134] monopolistic tendering[135] and principles of controlled price fixation.

Thus, it appears to be misleading to ascribe the problems of the coal industry mainly to the existence of small and unorganised sector. By adopting this line of argument (i.e. small units behaviour being responsible for the ills of the coal industry) it becomes possible to suggest, at least implicity, that the larger and organised units did not leave much to be desired in terms scientific mining, conservation and other social goals.[136] This also leads to the inference that it a policy of successfully amalgamating the smaller units with the larger ones were followed, the objectives of scientific mining, conservation, fair deal to labour, growth and modernisation, etc. could have been met without recourse to nationalisation.[137]

This is not to suggest that the continued existence of small, unorganised mines under prioriatory or partnership firms, did not cause problems. This however, is not the same thing as making this feature of the coal industry the villain of the piece. Apart from causing harm to conservation, safety and labour aspects in proportion to their share in coal mining, which was not too large (as seen earlier), the small mines, led to technical complications on account of which "substantial reserves were left locked within their boundaries, as none of the adjoining mines could risk mining close to the boundaries for fear of subsidence."[138] The smaller mines could not deal with water logging and fires. The smaller mines also posed problems for the Railways as the number of loading sites became too many, increasing the turnabout time of wagons. In brief, the co-existence of small, and large organised mines was an important feature of the coal industry and its problems.

Coal industry is a fairly labour-intensive industry. Over the period 1951-1973 employment in coal industry increased from 3.52 lakhs to 5.22 lakhs (an increase of 48.30 percent) while coal output increased from 35 million tonnes to 81.3 million tonnes (an increase of 132.29 percent).

It means that the labour-intensity in coal industry declined over this period and output work per worker per annum increased from 9.24 tonnes to 15.57 tonnes over the period 1951 to 1973.[139]

The decline in labour intensity obviously has to be seen in terms of increased investment and mechanisation over the period.[140] We have seen the role of World Bank loan in increasing private investment in the coal industry. These changes increased labour productivity and this factor also contributed to increased coal output over the period.

Despite increased output per worker, working conditions in coal mines left much to be desired. Various labour laws were enacted for ensuring labour welfare and appropriate working conditions based on safety norms, especially in view of inherently difficult and hazardous conditions obtaining in coal mines. However, in practice these laws and norms were rarely enforced and working conditions in the industry were far from satisfactory.[141] As Kumarmangalam showed in his monograph,[142] the major features of the labour scene in the coal industry were the following :

i) implementation of wage awards by no more than 10 percent collieries, though prices were based on Wage Board awards;

ii) contract labour system following the practices initiated during the war period; iii) violation of gratuity, leave and provident Fund laws; non-payment and irregular payment of wages and bonus and other dues with unauthorised deductions; iv) avoidance of P.F. contribution by manipulation of account, defaults of P.F. amounting to Rs.11 crores; v) widespread violation of mine safety laws on account of unscientific mining, lack of equipment, poor ventilation etc. The situation came to such a pass that "even the small number of workers who were kept on the regular pay rolls received their satutory wage only on papers; the rest were contractor's labour and contractors were free to pay them as they liked."[143]

According to returns by collieries,[144] the all-India index of labour earnings in coal mines, with 1951 as base, increased to 158.7 and was 495.2 in 1971 i.e. it was nearly five times its 1951 level.[145] In view of the factors mentioned above, these figures do not seem to indicate the reality of working conditions. Thus, it appears facile to conclude that "In respect of social security and welfare measures, it was one of the best served of the private sector industries."[146]

In fact, given the pricing policy of coal, which was based on average cost of representative mines, with provision to make adjustment for wage increments, it was probable that as reported labour earnings were shown to be rising, it became a basis for increase in controlled or loco prices of coal. Thus the reported wage level may show a rising trend without necessarily reflecting the actual earnings of coal labour. This is quite likely in coal mining where actual working conditions were far from satisfactory. It means the enactments concerning wages and working conditions could not be enforced. The non-enforcement of these laws seems to be generally admitted but it is argued that "it only demonstrated the weakness of the government enforcement machinery and also the complexities of the rules."[147]

It is undoubtedly true that without weakness of the enforcement machinery, the labour laws ~~could~~ not have be violated so flagrantly. Partly, complexities of the rules also made their evasion relatively easy. But it would be difficult to treat these factors as complete or major explanations. For one things, these two factors can be applied to the implementation of labour laws in any industry. After all, labour laws are applied with varying degrees of success to different industries. Thus one must look for the

specifics as applicable to a particularly industry. In the case of coal, the earlier bondage based labour practices, the practice of contract labour, migrant labour, the policy of price control, etc., and in the case of decontrol, the role of public agencies like the Railways in price-fixation, the existence of large number of small mines etc., also contributed to rather poor working conditions for labour. As a result of nearly automatic adjustment in coal prices following wage revisions, there are reasons to believe that there developed a tendency to over-report wages. But owing to the system of contract labour, location of coal mines in relatively poor and tribal areas which ensure labour supply at rather low real wage rates, the unorganised nature of a large number of small mines, inherently, hazardous and unpalatable nature of coal mine work, alongwith the weakness of administration and basic factors like the relative socio-political strength of coal mine owners vis-a-vis the workers, the working conditions in coal mines could not be improved.

The forgoing analysis shows that in situations like these, legal enactments and administrative arrangements cannot go far in ensuring appropriate working conditions to labour. Thus, trade unions in coal industry started

demanding its nationalisations. In general, while failure to implement a policy or a programme indicates unwillingness or incompetence or both in some combination, of the government, it does not follow that these policies cannot at all be carried out by the government in question. The failure may also owe itself substantially to the choice of instrument of implementation and a recourse to a more effective set of instruments may lead to better, if not total, achievement of the objectives behind these policies. In the case of regulating the conditions of labour, the experience of legal enactments and administrative steps tended to indicate the need for more direct and drastic steps like nationalisation.

IV

How did the coal industry fare during this period? how did it respond to various controls and regulations introduced by the public authorities? How did the decision to take over coal industry become necessary in the course of various measures of public intervention? Even without

take-over, the share of public sector in coal production increased during the period. Out of 38.22 million tonnes of coal production in 1955, the share of public sector was just 4.5 million tonnes.[149] It increased to 23 percent in 1965-66 and became nearly 40 percent in 70-71.[150] In 1972-73 after the take-over of coking coal minor the share of public sector increased to 53.50 percent. However, increased production in the public sector was obtained mainly by opening new mines and this led to frequent failures in meeting plan targets.[151] Though during the Second Plan, the private sector marginally exceeded its target (44.04 million tonnes of actual production against the target of 44 million tonnes)[152] during the Third Plan, both the public and private sector were unable to meet the targets. Even at the end of Fourth Plan, coal production stood at 78.17 million tonnes, against the target of 93.50 million tonnes.[153] The table given below shows the progress of coal production during the plans:

Plan	Target	Actual Production
First	39.00	38.23
Second	60.00	55.72
Third	97.32	67.74
Fourth	93.30	78.17

(million tonnes)

Source: Respective Plan Documents.

It can be seen that owing to slack demand for coal, the Fourth Plan target was lower than that for the Third Plan. The share which the public sector acquired in coal industry affected the choice of instruments and forms of public policy. It also had a hand in determining the response of industry in general and its private component in particular to these controls and regulations.

We have already referred to the performance of the coal industry in terms of additional output, employment and working conditions and welfare of the workers and engaged in coal mines. A lot can be said about the performance of coal industry from the social point of view, which would essentially argue less than adequate and desirable performance in terms of national objectives as embodied in the Five Year Plans. Similarly can be viewed the shortfalls in the realisation of plan targets. The shortfalls in coal output were of a serious nature, owing to the backward and forward linkages of coal. The divergence between production and despatches of coal reflected in stockpiling at pitheads accentuated the problems caused by slow and inadequate growth of coal output. In any case, much store is generally placed on the output performance of private sector coal industry as though the increased

output were an over-riding criterion, independent of other objectives or constraints.[154] We have seen how production performance was obtained at the cost of wastege of coking coal, disregard of the future use of coal fields, per-nicious labour practices etc.

If there has not been much private investment in coal industry, (an important factor in shortfalls in production as compared to plan targets) and the actual investments which came about owed significantly to the World Bank loans, this is partly explicable in terms of public policy of, by and large, allowing further expansion to public sector coal units alone. The scope for private sector investment was confined largely to working of adjacent mines and mechanisation and modernisation of existing mines. Obviously, there could not be much private investment under these limiting conditions except in higher mechanisation of existing mines. A policy of enlarged scale of public sector in any industry, for instance, coal, necessitates capabilities to undertake necessary investments, especially if the public sector expansion is to be based on fresh public investments rather than take-over of private mines in the main. Any failure or faltering performance in this respect compunds the backlog of problems faced by the industry in question. Once it happens, drastic steps remain a matter of time only. The investment needs of coal industry were

to derive, particularly during the Fifth Plan period, from the new, enhanced role assigned to coal in view of developments connected with mineral oil.[155] Even if one were to partially discount the estimated requirements of coal by the Fuel Policy Committee, there can be no denying of the big increase needed in coal production which would necessitate large investment. The Reserve Bank of India appointed a Working Group on Finance for the coal industry in November 1972. The Group came the conclusion that "The internal resources of the industry can contribute little to the investment effort required."[156]

Hence it recommended that a Coal (Finance) Corporation should be set up to assist weak small collieries financially.[157] Whether such a corporation is set up or the state goes in for take-over of the coal industry, it was obvious that finance for supporting sizeable fresh investment involved direct public intervention. Thus, decisive factors have to be other than responsibility of meeting the financial requirements and it is on the basis of these other consideration, as we discuss here, that the choice fell on nationalisation.

A number of other factors also restricted the inflow of private investment in coal. Given the fact that the public sector was the major consumer of coal which strengthened

the tendency to underprice coal, and that it was subject either to formal or informal price controls, the scope for legitimate, open returns in this industry could not have been, in comparative terms, too attractive. This had obvious impact on private investment whether fresh or for replacement. This however, is a point of view against which counter evidence is also available. If prices received were really unremunerative for the coal owners, they would have restrained the output of coal. But since output continued to grow even in the face of glut, it would appear that prices did not act as disincentives. Hence more important probably was the consideration that immediate, short-run returns could be high in coal industry by resorting to selective, slaughter mining, ignoring labour laws, and safety provisions rather than by maintenance and replacement of machinery or by greater mechanisation or steps aimed at higher labour productivity in terms of output per man shift.

Simply by enacting laws and setting up administrative arrangements one may not creates sufficient conditions for the achievement of the objectives of scientific mining, conservation, fair deal to labour, modernisation and sufficiently high rate of growth. Much also depends on the objective market forces and the extent to which these

general factors are allowed to operate *vis-a-vis* the specifics of the individual industry. The scope envisaged for the public sector, a constant glare of various studies and enquiries about coal industry which highlighted its problems and predicament, the scattered nature of coal mining, the practice of unit cost plus pricing whether under statutory control or under *de-facto* control, etc., created conditions in which the private sector developed a certain kind of approach and attitude towards their stakes and policies concerning the coal industry. A lack of long-term continuing stake in coal industry for the private sector was an essential ingradient of this attitude. This attitude and approach created conditions vastly different from the objectives of public policy concerning a vital industry like coal. The behaviour of the private sector based on such a perception increasingly drew the public sector into the coal industry and this involvement had increasingly to become direct.

The neglect of scientific mining, with a view to conserve the limited reserves of coking coal, and inability 158
to treat coal reserves as a long-term social asset persisted. Neither World Bank backed investments, nor restrictions on coal output, nor price policy nor stowing and other subsides could induce private collieries to adopt methods of scientific mining, conservation of a vital mineral resource

and socially and economically sound labour practices.

Amalgamations on voluntary basis did not come about on a significant scale, in fact, the scheme was sought to be (mis) used as a device for extending private coal mining to fresh areas. The government did not did attempt compulsory amalgamations; even if such amalgamations were brought about to eliminate small sized, unorganised sector mines, it would not have gone very far. After all, a little over 10 percent of the output was under the control of the small sector of coal mines. The way coal mining industry grew in India in an unplanned, ad hoc manner, even without appropriate geological maps of the coal fields and responded to market forces, tended to structure it in a manner inimical to scientific mining.

The tradition of labour relations, the socio-economic context of the coal region which had a significant bearing on the ability of labour to obtain a specific quality of working conditions, particularly in view of the inherently hazardous nature of work in coal mines, also lent their weight to non-implementation of various laws. The fact that there was a very comprehensive set of laws and regulations for coal workers itself bears testimony to the acute need for such interventions. The fact that the public

sector provided during the Second Plan, as much as one-fifth of total investment of the order of Rs.60 crores to the coal industry for workers housing,[159] indicated that only direct state intervention can make an impact on the working conditions. Otherwise, the bulk of the labour laws were observed mainly in breach. As a result, there came to exist "two worlds" in matters relating to labour in coal industry - "one in which the statutes and wage board awards were fully implemented by public sector agencies and the other, where these were grossly violated."[160] Such a situation generated pressures from labour unions for direct state control over mines. It also indicated to the government that the objective concerning working conditions cannot be achieved without making the ownership of the coal industry change hands.

The experience with price control and subsequent decontrol highlighted the dilemmas facing policy-makers. For one thing, as far as the problem of conservation of coal resources through scientific mining and stoppage of non-metallurgical use of coking coal was concerned, the policy of uniform price, gradation of coal, minor price differential and limitations on the output of coking coal could not prove effective. It is often suggested that by introducing price differential in favour of coking coal, its demand could have

been restrained. This plea ignores the effect of cost of production and supply side response of higher prices for coking coal. In the absence of significant off-setting trends in cost of production, higher prices for metallurgical coal would improve its relative profitability. Even for non-metallurgical purposes, the higher thermal value of superior grade coal will partially offset higher prices charged for it. Thus it is rather simplistic to presume that a policy of higher prices for coking coal would have served the interests of conservation. In view of widespread malpractices, violation of safety and conservation laws, one may understand the reluctance on the part of public authorities to grant price increases fully covering reported escalations in cost. This was considered essential in order to curb profiteering. As the direct burden of such price hikes was to tell on public resources (following ffrom the preponderate role of public sector in coal consumption), even expediency argued a case for restrain on coal price increase.

As we saw above, following the Tariff Commission recommendation for an increase in coal prices, the government opted for decontrol of coal prices and distribution,

especially in view of the informal control which it hoped to retain over coal prices and movement. The use of such monopsonistic power could have effected the coal mine owners adversely, but the latters action in terms of tendering at uniform prices, confronted the former with a collusive oligopolistic situation. As seen above, the actual behaviour of coal prices also showed that these prices did not fare badly after decontrol. Thus decontrol could not ensure what it was intended to by the government, viz., an easy price situation. The other problems with respect to coal industry also persisted with increasing urgency in view of the greater importance acquired by the energy sector and the balance of advantage moving in favour of coal vis-a-vis mineral oils.

On top of this dilemma, there operated a number of factor which made the policy makers increasingly concerned about the coal industry. For one thing, the 'oil shock' of 1973 and its persistence, argued a strong case "that effective utilisation of domestic resources consequently remains as a desideratum for designing rational fuel policy."[161] The Fuel Policy Committee maintaned that "the production of coal will have to be stepped up from the level of 74 million tonnes

in 1970-71 to around 165 million tonnes in 1978-79.[162] Even if it is admitted that the above estimates, based on "desired" levels of coal consumption, were over-ambitious and disregarded past trends and feasible levels of increase in view of the historic experience,[163] it is clear that hitherto unprecedented increases in coal output, necessitating huge investments clearly beyond the capacity of the existing private colliery owners became essential in view of the requirements of steel, energy and other sectors. According to the RBI's study team on finances for the coal industry,[164] the private sector looked upto the government and public agencies for the bulk of its investible resources. Internal resources of the industry were unlikely to suffice for the purpose, as new mines with surface and non-too-deep mining were foreclosed for the private sector, leaving out deep, scientific, highly mechanised, capital intensive mining in coalfields already under private control for the private sector under the Industrial Policy enunciated in 1956. The weakening of the financial position of the coal mines can be seen in the financial ratios of the larger coal mines.[165] It becomes so serious that the coal mines were defaulting not only labour's dues but also statutory payments like royalty payments to state governments.[166]

Thus, past trends, present predicament and future prospects of the coal industry all indicated gloomy picture on account of the behaviour and capabilities of the private sector, as well as the government's inability to successfully device and implement an adequate and viable scheme of controls and regulations. The tortuous course of controls and the variety of stratogems applied indicated a narrowing of options. It is unlikely that private owners will ever volunteer to surrender their control over any productive assets. Notwithstanding the range and severity of public controls, the main impact of such factors is felt on maintenance, replacement and further investments (except when external resources are injected on very liberal terms in some kind of a rescue operation). However, such an impasse weakens the resistance an industry might like to put up against takeover, except on issues of compensation, future management set up and policies, prevention of consequential take-over of inter-related units etc.[167] The evolution of controls and growth of the coal industry, as discussed above, seem to point to some such perspective.

The above analysis indicates recourse to nationalisation as an extreme measure of the last resort, which was taken after almost every step turned out to be inadequate

and/or ineffective. This interpretation is quite different from those interpretations which paint this step either an act by default or an act motivated by doctrinaire considerations.[168] No doubt, the phase of Indian politics following from the split of the congress in 1969 and the massive mandate the ruling party received on a seemingly progressive platform (atleast in rhetory and skindeep, if not real and thorough going and also in the perception of the masses, as reflected in voting behaviour) contributed its share to the decision to go in for take-over of the coal industry, particularly in as far as people like Kumaramanglam were catapulated into positions of influence and/or authority.[169] But this cannot be an explanation related to the specifics of the coal industry. These factors, in other words, were general and applied to many other industries. The choice of coal did not seem to derive much from factors external to the industry, unrelated to its own history, growth, structure and predicament. After all, a public commitment by the ruling party existed for nationaling the sugar industry,[170] a promise which remains unfulfilled. But coal was taken over despite the absence of any such prior political commitment. To me, this seems largely to derive from the factors discussed above, basically, a choice which was really a Hobson's choice.

This does not, however, mean that there was any consensus on the issue of take-over of coal mines. The analysis of the growth and evolution of the coal industry, its public regulation, its structure and relationship with other sectors of the economy shows that quite a few divergent interests were associated with the course of development of the coal industry. A basic reorganisation of its structure, as entailed by nationalisation, was bound to effect these interests differently. A known functionary of the coal industry has attempted to identify various interests which were favourably and those which were hostilely inclined towards nationalisation of the coal industry.[171]

According to him, there were some seven distinct groups who stood for nationalisation. These were:

(i) conservationists: (ii) ideological socialists; (iii) well-meaning professionals seeking a rational order; (iv) national trade union leaders, including militant, well-meaning worker-leaders in the field; (v) improverished worker in the private sector, who were denied their legitimate dues in terms of the Wage Board awards; (vi) comparatively well-off workers in the organised sector, possibly seeking further advancement, and (vii) careerists in the nationalised mines and managers in the private sectors looking for easy side-money.[172]

He also counts large private sector consumers of coal, the State governments of the States earning revenue from coal royalty and the general public "inspired by egalitarian slogans" among the supporters of coal nationalisation. According to this analysis, the following six groups were opposed to nationalisation.

(i) unorganised and semi-organised sector;(ii) middlemen operating with large margins between mines and consumers, thereby earning inordinately large profit (iii) members of numerous regulatory and service organisation of the Government who benefied from the interaction of their organisation with the private coal industry;(iv) local politicians and trade union leaders who benefited from the enormous amount of unaccounted money which the private sector of industry generated (v) senior member of the private sector who received fabulously high salaries and perquisites, besides "under the table" payments, which escaped taxation; and (vi) members of the recuiting agencies, such as the Central Recuriting Organization, whose function was to provide the mines with sweated labour drawn from the poorest regions of the country.[173]

Thus by going in for take-over, the balance of advantage even in terms of power politics, seems to have been appropriately taken care of. It is on these grounds that

one tends to conclude that there was little doctrinaire basis in the calculations of the decision-makers.[174] In fact, existence of any doctrinaire ideological commitment to nationalisation among the ruling groups and classes in India is something which is quite contrary to the class character of the Indian State. It was, by and large, a sector specific decision, based on operational considerations flowing from the structure and growth of the industry on the one side and the experience of controls and regulation on the other.

REFERENCES

1. GOI, Report of the Committee on Controls & Subsidies, New Delhi, May, 1979, p.232. Exclusion of the Captive mines of TISCO was opposed and considered discriminatory by Indrajit Gupta, M.P. in the Lok Sabha. Lok Sabha Debates, Fifth series, Vol.28, May 14, 1973, Cols.76 to 83.

2. GOI, The Coal Bearing Areas (acquisition and Development) Act, 1957, (No. 20 of 1957) 8th June, 1957.

3. Lok Sabha, Report of the Fifteenth Estimates Committee (First Lok Sabha), para 12, 1956.

4. Lok Sabha, Estimates Committee Report, 1974-75 - on Ministry of Energy, Deptt. of Coal.

5. GOI: The Coking Coal Mines (Emergency provisions) Act, 1971, No.6 of 1971, 23rd Dec., 1971. The measure was already under contemplation of the Minister of Steel and Mines. Introducing the Bill, he said in the Lok Sabha that on July 2, 1971 he has informed the House that the government in considering what is the best way to ensure conservation and a decision will be taken before the next session. Lok Sabha Debates, Fifth series, Vol.10, 10th-16th Dec. 1971, p.33.

6. The Act, objectives.

7. Ibid. p.34, The Minister showed that 40 percent of the coking coal mines produced less than 200 tonnes per day.

8. The Act, objectives.

9. The Act, Director General of Mines Safety. Report of the Chief Inspector of Mines in India.
Also, Lok Sabha Secretariat, Lok Sabha Debates Fifth Series, Vol.XXVIII, 14 May 1973, Cols. 58 to 60.

10. The Act, objectives.

11. Statistics on Mining: Coal. Statement No.8.4

12. As shown in respective Acts.

13. For example, Net Profits/Total Assets ratio of some important coal companies declined as shown in the Table given below:

Name of the Company	Total Liabilities to net worth				Net Profits to total assets.		
Years	1969	1970	1971	1972	'69	'70	'71
The East Indian Coal Co. Ltd.	156	108	230	-	(-) 8	(-)2	0
The Sehgal Coal Company Ltd.	141	140	-	-	3	0	-
Equitable Coal Co. Ltd.	1722	88	-	-	0	(-)4	-
The Nazirn Coal Co. Ltd.	55	60	73	92	(-) 9	(-)6	(-)
The North West Coal Co. Ltd.	46	47	-	-	4	3	-
Mahabir Collieries Co. Ltd.	512	-	-	-	(-) 5	-	-
Lodna Collieries Co. Ltd.	-	-	-	-	-	-	-
Oriented Coal Co. Ltd.	257	242	-	-	3	4	-
The New Beerbhoom Coal Co. Ltd.	155	176	195	-	6	2	-
West Jumria Coal & Trading Co. Ltd.	-	-	-	-	-	-	-
United Collieries Ltd	141	135	116	-	7	6	5
The South Karanpura Coal Ltd.	163	176	182	-	7	7	5

Source: Bombay Stock Exchange Directory (Various Issues)

14. Kumaramangalam, S. Mohan: Coal Industry in India: Nationalization and Taks Ahead. New Delhi. Oxford and IBH 1973, annexure III, p.77 See Table 1 showing Coal Producting during 1960-61, 1973-74. Production in the two months preceding nationalisation, in fact, declined by 25 to 30 percent. See, Roy, Kalyan, M.P.'s speech, Rajya Sabha Debates, Vol.84, 16 May, 1973, Cols. 67 to 78.

15. Rajiv Kumar, Nationalisation by Default: The Case of Coal in India EPW April 26, 1983 and May 2, 1981, p.829. This heavy debt incurred by the coal mine owners could not benefit them as these liabilities were not taken over.

16. Ibid. p.829. Lok Sabha Debates, op. cit., Cols. 70 to 72, Speech by Robin Sen.

17. See Supreme Court Cases: 1980: Vol.IV, Oct.15, 1980, Part 2, para 15 of the judgement of the Supreme Court in the case Tara Prasad Singh vs. union of India and others over coal mines. As late as in December, 1982, the Supreme Court rejected a petition challenging the validity of coking coal mines (Nationalisation) Act 1972. It upheld that the distribution between public, private and joint sectors and the extent and range of any nationalisation are essentially matters of State policy which are inherently inappropriate subject for judicial review" reported in The Statesman, 15 December, 1982, p.2.

18. Ibid., para 19

19. Kameshwar, Coal Industry, Under Public Sector, Lok Udyog, Vol.VII, No.3, June, 1973, pp.27-31.

20. Supreme Court Judgement, op.cit., para 22.

21. Ibid. para 23.

22. Report of the Chief Inspector of Mines in India - Director General of Mines Safety-Statistics of Mines: Coal, op.cit.

23. Report of the Committee for 1973, Indian Mining Federation, Calcutta, pp.19-24.

24. The Act, Chapter III. It specified the amounts to be paid to each of the 711 coal mines in Chapter VI and prescribed the mode of payment.

25. As stated by Shri Mohan Kumarmangalam in the course of reply to the debate on the Bill. Lok Sabha Debates, op.cit., Cols. 125 to 134.

26. Shri Robin Sen, Ibid. Cols. 70 to 72.

27. Patel, H.M. Lok Sabha Debates, op.cit., Cols. 108 to 110 Shri Monoranjan Roy, M.P. making a similar point, said that The Bengal Coal whose paid-up capital is only Rs. 1 crore 40 lakhs is being offered a compensation of Rs.3.75 crores. Equitable Coal, whose paid-up capital is Rs.88.63 lakhs is being given over Rs.1.41 crores and Amalgamated Coal field, with PUC of Rs.51 lakh is getting Rs.94 lakhs. Rajya Sabha Debates, Vol.84, 9 to 19 May, 1973 Cols. 78 to 84.

28. Lok Sabha, Fifteenth Report of the Estimates Committee (1956)

29. Golden Jubilee Souvenir, 1930-80 - Indian Coal Merchants Association, Calcutta, p.30, Cf. Papendieck, Henner, "British Managing Agencies in the Indian coalfield" in Zamindars, Mines and Peasants: Studies in the History of an Indian Coalfield and its Rural Hinterland (ed.) Rothermund D. and Wadhwa, D.C. New Delhi, Manohar, 1978. He writes "From its beginning in 1820 until the 1880s the coal mining industry of Bengal grew in accordance with the needs of various departments (Military, the Mines, etc.) of the East India Company. The Industry, centered in Raniganj field, not far from Calcutta grew gradually with the help of government contracts, guranteed purchases, direct subsidies for the establishment of an infra-structure for distributing coal to sea-going harbours and bunkers of steamship stations along the Ganges", p.165.

30. Souvenir, op.cit., p.31

31. Quoted in Kumarmangalam, S.M., op.cit., p.23

32. Idem.

33. Op.cit., p.167-168. He points out that in 1895 the office of an Inspector of Coal mines was created.

34. Administrative Reforms Commission (ARC Report of the Working Group on Development, Control and Regulatory Organisations, March 1968, p.129.

35. Golden Jubilee Souvenir, 1930-80, op.cit., p.37

36. Gupta A.B., Whether Coal: A Study of Post-Nationalisation Coal Industry, Birla Institute of Scientific Research. Economic Research Division, New Delhi, Vision Books New Delhi 1979. It says, "Before 1945, when colliery control order was introduced, it was absolute anarchy. Prices of coal tumbled downs as low as Rs.2.80 to Rs.3 per ton of selected 'A' grade coal in the thirties. This was the position even during the First and Second World Wars, although there were occasional spurts in prices." p.41.

Apart from ARC Working Group Report, op.cit., See also Government of India, Report of the Committee on the Controls and subsidies, New Delhi, May, 1979, chapter 18, Coal, p.232-242.

37. Souvenir, op.cit., p.41, This was done under the colliery control Order, 1945. The 1944 colliery control order came in the wake of a severe shortage of coal alongwith sharp rise in coal prices. The Indian Coalfields' Committee, 1946, described the coal price situation in 1943 as follows: "Prices as high as Rs.60 per ton were demanded in many cases and paid. The necessity for controlling prices was felt even in 1943, but on account of the heavy drop in production, the Government of India did not consider the time opportune for introducing price control, as such a measure, it was felt, might have a further adverse effect on the already declining output."

38. See, Souvenir, ICMA, op.cit., p.38

39. Ibid., p.237

40. See, Dasgupta, Ranjit, "Structure of the Labour Market in Colonial India"Economic and Political Weekly, Special Number, Nov. 1961, especially p.1787-91. For the conditions of labour markets during the colonial era. A detailed account of the labour practice particularly upto 1920 is available in Papendieck op.cit., p.166-168. He says "In this organisation of the labour force they (coal companies) took over many features of the feudal system prevailing in Bengal" p.167.

41. Kumarmangalam, S.M., op.cit., p.46-48 and p.16. Also Das Gupta R. op.cit., p.1787.

42. Dasgupta, R. op.cit., p.1788

43. Ibid. "Till early 1920s in both Jharia and Raniganj coalfields the overwhelming majority of miners were recruited from the population living more or less in proximity to the coalfields ... It was only later on that serious attempts were made to recruit labour from distant districts in Bihar, the United Provinces and Central Provinces," p.1796. Through the coalfields Recruiting Organisation, by the end of 1945, 30 thousand such labourers were brought into the coalfields. Ibid. p.1789.

44. Das M. Fantasy of Coal Nationalisation., Howrah 1975. See Statement facing p. 90 in the book.

45. Rajiv Kumar, op.cit., p.766.

46. In 1942, Coal constituted 40% of goods traffic on railways and owing to war time pressure on railways, wagon shortage for coal became acute.

47. ARC Report of the Working Group, op.cit., p.129.

48. Reproduced in Appendix 1, Khera, S.S., Government in Business, New Delhi, National, pp.407-413.

49. Souvenir, op.cit., As it takes six to seven years to develop coal mines to obtain production, the Government neither worked out these virgin areas, nor allowed the private sector to work out (sic) these collieries", p.43.

50. ARC. Report, op.cit., pp.129-155. This para is based on this Report.

51. Souvenir, op.cit., p.42-43.

52. Farquhar, Andrew,: Coal Policy in India. articles reprinted from Capital, Calcutta, 1949, p.2, p.88-89.

53. Discussions with the Deputy Coal Controller, Calcutta, in 1982.

54. Farquhar, op.cit., p.2 and p.89.

55. Souvenir, op.cit., p.43.

56. On the contrary, the Hilt's Law that deeper you go the the better the coal you got did not apply in India and in many cases coking coal was available at the surface, giving incentive to the collirles to produce larger quantities of such coal. Based on discussion with the functionaries of Coal India, April, 1982.

57. Lok Sabha Estimates Committee, Thirty Second Report (1962-63) para 2.

58. Farquhar, A., op.cit. "The controlled rates fixed gave an undue preference to inferior grades of coal and this resulted in a general scuffle to take an advantage of the high price and easier conditions of production", p.60.

59. ARC, Working Group, Report op.cit., p.147

60. Ibid., p.149.

61. Ibid., p.149, "There are a number of government agencies who have their distinct functions to perform having a bearing on coal industry, namely, the DGMS, the Coal Mines Welfare Commissioner, the Coal Mines Fund Commissioner - the Regional Labour Commissioner". These are in addition to the Coal Board.

62. Ibid., p.150.

63. Ibid., p.150.

64. Ghosh, A.B. Coal Industry in India: A Historical and Analytical Account. Part I, New Delhi. Also Kumaramangalam, op.cit., Rajiv Kumar, op.cit.

65. As quoted by Das, M.op.cit. pp. 36-37, from the Chari Committee Report, Chapter 11, para 2 May 1969. The Details are given in the Table number One and Two.

66. Report of the Committee, Indian Mining Federation, 1973, op.cit.

67. Kumarmangalam, op.cit. pp.34-35, and Kumar, Rajiv, op.cit.p.758.

68. Lok Sabha, Report (Fiftienth) of the Estimates Committee, 1956, New Delhi, para 7, 8, 12.

69. Ibid., paras 10-11.

70. Ibid., para 12.

71. See Report of the Committee on Amalgamations of Collieries, New Delhi, 1965: "The small collieries are large in number, but their overall output is small. They are small ventures with no equipment. They have no technical staff. They have limited, if any possibility of expansion. They cannot follow scientific and planned methods for exploitation of coal. If the industry is to play its part in immediate future, if labour is to get its due place, it should be reorganised..... They should therefore, be amalgamated, brought under unified control, reorganised and modernised so that existing resources are used in best possible manner and in the best interests of the nation" quoted in 38th Report of the Estimates Committee". Lok Sabha, 1962-63, New Delhi, para 23.

72. Ibid., para 23.

73. Ibid., para 24.

74. Ibid., para 23 mentions that the number of coal mines producing less than 6000 tons a month (viable size) was 569 in 1961 and they accounted for 21 percent of total output. In fact, the private colliery owners continued to defend such a fragmented structure of coal industry. For instance, Das, M. (Secretary Indian Mining Federation), wrote, "the existence of a large number of small colliery units working like small industries should not be tabooed as uneconomic and treated as undesirable". op.cit., p.35

75. See Report of the Committee on Controls & Subsidies, op.cit.

76. Para 4, New Delhi, 1962-63.

77. The Five criteria were : i) Essential part of the plan of the private sector, ii) contiguous area, iii) comparatively small area, iv) isolated pocket and; v) quality of coal in the area. *ibid.* para 4.

78. *Ibid.*, para 6.

79. Rajiv Kumar, *op.cit.*, p.760.

80. As K.D. Malvija, Minister for Mines, said in a Statement in Lok Sabha April 1963, "We want coal, and we badly want coal and therefore, whosoever produce it is most welcome to do it" quoted in Souvenier, *op.cit.* p.45 also M.Das, *op.cit.*, p.11.

81. *Ibid.*, p.45.

82. Lok Sabha *Report of the Committee on Public Undertakings*, (10th Report) 1967-68, New Delhi.

83. Das, M. *op.cit.*, 10-14. and Souvenir, *op.cit.* p.46-47.

84. Report of the Committee on Controls and subsidies, *op.cit.* p. 233, Table 11, given figures for the off take of coal in 1977-78.

85. *Ibid.*, p.235.

86. Gupta, A.B., Whither coal?, *op.cit.* p.41.

87. Das, M. *op.cit.*, shows the changes in coal prices between 1947 and 1967. Out of 33 cases of prices revisions, wages-related factors were cited as necessitating price change in 24 cases. Also, Gupta, A.B., *op.cit.*, Appendix-A, B, C, and D data on coal prices pp.96-120.

88. *Ibid.*, p.827, Also Gupta, A.B., *op.cit.*, p.41.

89. Ministry of Steel and Mines, Government of India, *Report of the Study Group on Coal Prices for Bengal-Bihar Coal fields.* New Delhi, 1966, pp.9-12.

90. Gupta, A.B., *op.cit.*, p.42-43.

104. _Ibid._, p. 234. "After decontrol prices were settled through mutual negotiations between the producers and consumers particularly in respect of large consumers like the Railways, the Steel Plants, and the Power Houses. Generally, non-coking coal prices for other consumers were determined by the prices paid by the Railways".

105. For details of attempts by coal miners to obtain higher prices, see, _Report of the Committee of Indian Mining Federation_, Calcutta (for various years, particularly 1965 to 1971).

106. A point made by the officials of coal India in the course of discussions. April, 1982.

107. Rajiv Kumar _op.cit._, p.828.

108. _Ibid._, p.828 Souvenir, _op.cit._, says "Although the price of coal was formally decontrolled in July 1967, informal price control existed in its worst form rendering the then coal price more and more fluctuating. Taking advantage of being monopoly buyers of coal, the steel plants and Railways had all the time dictated prices. The Joint Working Committee of the different coal producers associations in its circulars issued from time by time after decontrol of coal prices announced the ceiling prices and asked its member producers to adhere to such announced prices and not to resort to cut throat competition". p.62.

109. Kumar, Rajiv, _op.cit._, p.828.

110. That decontrol was followed by farily large increase in the prices of coal is evidenced by the following excerpt from the _Seventh Annual Report of the Cement Manufacturers Association._ (Bombay, 1967). "With the announcement of decontrol of coal industry by Government in 1967, the prices of various grades of coal were raised upwards resulting in pushing the cost of production of cement further by Rs.2.50 per tonne" pp.7-8.

111. Dr. Nag and Dr. Krishnan, in their Note to the Report of the Coal Mining Committee, 1936, as quoted by Kumarmangalam, op.cit. p.25-28.

112. A number of amendments were made to the nationalisation law in order to tackle the legal complications arising from such litigation. The Supreme Court delivered a judgement as late as in 1980 /and in December 1982/ in the case of Tara Prasad and others versus the Union of India upholding the validity of coal nationalisation (see Supreme Court Cases 1980; Vol.IV, 15 October, 1980 part-2). A study done at the Birla Institute of Scientific Research, Whither Coal, op.cit., still pleads for a joint sector with "participation both of private and public sector representatives as the way out for the coal industry", p.91. See note No.17 earlier.

113. Report of the Committee on Public Undertakings (1967-68). However, 7 mines out of the 16 had to close down owing to slum in demand. Also Kumarmangalam, S.M., op.cit., p.42.

114. Gupta, A.B. op.cit., p.43.

115. GOI, Ministry of Steel and Mines, Report of the Committee on the Price of Metallurgical Coal, New Delhi, 1969. For a critical examination of this view see page 65-66 of the text.

116. Report of the Committee on Controls and Subsidies, op.cit.,p.234.

117. The loan agreement with the World Bank, interestingly contained the following understanding. The Government has made it clear that"it does not intend to nationalise the coal industry". This was in July 1961, See Souvenir ICMA, op.cit., p.45.

118. This quote as well as other facts about the World Bank loan from Rajiv Kumar op.cit., p.765.

119. As quoted in Souvenir, ICMA, op.cit., p.47.

120. See, Dr. Nag and Dr. Krishnan's note, op.cit., No.106 and the 15th Report of the Estimates Committee, op.cit. The following excerpt from the evidence of the coal commissioner may be worth quoting in extenso. "If nationalisation is postoponed by 25 years and the industry is given a free hand, there will be little left at the end of the period for the country to take over. We will be left with a number of units, which affected by underground fires and other hazardous conditions would be uneconomic to work". Quoted in ibid.

121. Report of the Committee on Controls and Subsidies (CCS), op.cit., p.232.

122. Kumarmangalam, op.cit., GOI First Five Year Plan, pp.385-386.

123. Report, CCS, op.cit., p.233. In 1950, the Railways consumed 31.3 percent, steel, 13.6 percent, power 6.9 percent, collieries themselves 11.3 percent of the coal output, GOI. First Five Year Plan, New Delhi, p.385. Changes in the use pattern of coal indicate the transformation which industrial structure in India underwent. In 1920, the major consumers of coal were as follows, Jute 7%, Cotton 6%, Iron 2% construction 2%, coal 14%, other 6%. See Papendick Henner, British Managing Agencies in the Indian Coal Field, op.cit., p. 182.

124. Gupta, A.B., op.cit., p.64.

125. Ibid., p.15 says, "The behaviour of this cycle (six) Pattern can best be illustrated by the fact that the average price of Bengal and Bihar Coals, which were Rs.3.12 as per tone in 1911, rose to Rs.14.10 as in 1922, dropped again to Rs.6.5 as in 1926 and still down to Rs.3.5 as in 1936, but recovered dramatically again in 1948". Also Souvenir, op.cit., pp.27-31.

126. According to Indian Minerals Year Book, in 1975, these States produced about 82.4 percent of total coal.

127. ARC, Working Group Report, op.cit., p.135 The unregulated and ad hoc beginning of coal mining have been highlighted by Papendieck, H.op.cit. "There were no mining laws or government control of mining operations. There was even uncertainly about the ownership of mining rights, royalities, etc.", p.166.

128. There were 417 joint stock companies at work in 1972-73 with a paid up capital of Rs.264.54 crores. Statement No.8.4 in Statistics of Mines in India, Vol.I, Coal, 1971, IGMS, Dhanbad. Many of these companies were managed under managing agency arrangements until this system was done away with. Among foreign companies mention may be made of Jessop & Co., Bengal Coal Co., Equitable coal co., Assam Railways and Trading Co., etc. For an indepth account of the Managing Agency of Andrew Yule, the biggest one controlling coal, See, Papendick, H. op.cit. He shows that "From 1890 to 1920, the number of public limited companies in mining in Bengal grew from 6 to 227, their nominal capital increased from 55 to almost 87 million Rupees. The average capital per company sank from 9 lakhs of Rupees to 3.5 lakhs" p.184 (emphasis added). The dominance of large units can be seen from the case of Bengal Coal Company set up in 1834, which took over many coal fields and remained the largest private company until 1973, Ibid., p.174.

129. According to the Committee on the Amalgamating of collieries, op.cit., each viable unit should produce at least 10,000 tonnes per month and comprise about 100 acres of coal bearing area.

130. Balwant Rai Mehta Committee, op.cit.

131. Rajiv Kumar, op.cit., p.758.

132. Das, M. op.cit., 34-5, while conceding the disabilities affecting small mines, pleaded for them on account of their contribution to production in a country where coal occurred in many cases on the surface without necessitating deep mining.

133. The evidence Kumar gives for this inference is in terms of the preoccupation of the price policy with the proftability of small mimes. He quotes the Energy Survey Committee Report and the Ganguli Committee Report for support. However, the former, in the quotation Kumar gives talks of "the emergence of abnormal profits to private sector coal owners", which does not at all refer to small owners, separately and the latter rules out the use of price increases for providing incentives again without reference to scale, p.327. Many big collieries were bedevilled by various problems. For instance, "The management of a big colliery, namely, Equitable Coal Co., Ltd., was taken over under recommendations of the Government by IRCI (Industrial Reconstruction Corporation of India) and the arrears of P.F. during the period of their management amounted to Rs.5 crores", Das, M. op.cit. 57.

134 See, p.38 above.

135. See, Kumar, R. op.cit. p.828, our discussion earlier, p.38, Note. 108.

136. Ibid. He holds that the performance of the private sector in coal during the two decades "cannot be described as unsatisfactory". p.761.

137. Ibid. ".... all these demonstrate that the government did not regard the rationalisation of the industry's structure as an important issue in the two decades.", p.824.

138. Ibid., p.789.

139. Statistics of Mines in India, Vol. I, Coal, 1975, DGMS, Dhanbad

140. Data on Electricity, Machinery and Explosives, pp.78-140 in Statistics of Mines in India - Ibid., also, Rajiv Kumar, op.cit., 765.

141. Marx, K., has shown how neglect of indispensable outlays, in coal mines in early nineteenth century English coal mines were operating at the expense of the labourers. Quoting contemporary reports he concludes that, "these human sacrifices are mostly due to the inordinate avarice of the mine owners. Very often they had only one shaft sunk, so that apart from the lack of effective ventilation there was no escape were this shaft to become obstructed." Capital, Vol.III, Progress, Moscow, 1971. p.88.

142. Op.cit., pp.46-49

143. Ibid., pp.47-48

144. Statistics of Mines in India, op.cit., pp.1-3.

145. Ibid.

146. Rajiv Kumar, op.cit., p.766

147. Ibid., p.765.

148. Kumaramangalam, op.cit., p.49, "In mix January, 1973 all the trade union centres joined together in organising a general strike of mine workers behind the demand for nationalisation of all mines. The imperative need to secure a fair deal to labour became thus an important ground for the taking over of private collieries", p.49. The role of labour in coal nationalisation was also highlighted by Inderjit Gupta, M.P., in the debate over the Coal Nationalisation Bill in the Lok Sabha. See, Lok Sabha Debates Fifth Series, Vol.XXVIII, No.56, May 14, 1973, Cols. 76-83.

149. GOI, Second Five Year Plan, pp.373-74

150. GOI, Fourth Five Year Plan, p.273, See Table II on Production of Coal

151. During the Second Plan, the public sector production target was 16 million tons but actual production was 10.58 million tons only. See, Report of the Estimates Committee (33rd) 1962-63 para 3. During the Third Plan, the production target was revised downwards from 97 million tons to about 90 million tons. Against the original NCDC target of 30.5 million tons, actual production was about 9.7 million tons, only. Against

the planned opening of 27 new collieries, only to 16 could be opened and owing to slump, 7 collieries were closed down. Report of the Committee on Public Undertaking, 1967-68.

152. Report of 33rd Estimates Committee, op.cit.,

153. Fourth Five Year Plan, op.cit., p.273

154. The IMF Report for 1973, op.cit., states, "coal production in the private sector had shown an upward trend year after year and had always exceeded the overall demand in the country. The unprecedented accumulations of coal stock at the pit-head of the coal mines had been increasing which was indicative of the fact that the industry never spared any efforts to keep the output at an increasing level", pp.10-11. On top of this, there was large-scale unreported production by private collieries - See Kumarmangalam, op.cit., p.56, Statesman, 16-4-1974, quoted in Das, M. op.cit., p.77.

155. As indicated by the Chairman, Fuel Policy Committee, 1972, as quoted by Kumarmangalam, op.cit., p.41

156. Ibid.

157. Quoted by Das, M. op.cit., p.52

158. As Shri Kumarmangalam told the Lok Sabha "Unfortunately all the steps that have been taken over these years were of no value; they took us nowhere at all. Ultimately it became obvious that we must go forward to nationalise the coking coal mines. If anything, we have delayed this far too long". Lok Sabha Debates, op.cit., 35. One can see how facile it is to ascribe the so-called ideological motivation to the act of nationalisation and to the role of Shri Kumarmangalam in particular, as was done by Rajiv Kumar op.cit., and others. Also Kumarmangalam, op.cit., pp.38-39.

159. Second Five Year Plan, op.cit., Chapter XVIII, p.376.

160. Kumarmangalam, op.cit. p.48.

161. As quoted in Kumarmangalam, op.cit., p.41.

162. _Ibid._ p.41

163. Rajiv Kumar, _op.cit._,

164. As cited earlier.

165. As cited earlier.

166. See Kumarmangalam, _op.cit._, pp.44-45. Also, Das, M. _op.cit._, pp.55-58.

167. As can be seen in the strategy to face the take-over of coal mines outlined in IMF's annual report, _op.cit._

168. Rajiv Kumar, _op.cit._, Gupta, A.B. _op.cit._, Das, M. _op.cit._, participating in the debate on Coking Coal Nationalisation Bill Shri Kumarmangalam said, "The nationalisation of the coking coal mines has been proposed _basically_ and _fundamentally_ with a view to augment the supply of coking coal and to meet the growing requirements of the iron and steel industry". _op.cit._, p.37. As the then Prime Minister said in the course of Parliamentary debate in 1972, "We shall not hesitate to nationalise any unit or industry when there is evidence that it is being managed to the detriment of the national interest. That is why we took over the management of certain coking coal mines and of copper." Quoted in a Lok Sabha debates by the Minister for Industrial Development, _Lok Sabha Debates_, 1972. Vol.XV. No.48, Collumns 263 and 264. In fact, in the Same Speech, it was maintained that "Nationalisation is one amongst many instruments at the disposal of government to end concentration of economic power in private hands, and we resort to it after a careful assessment of the efficacy of the other instruments available in a given situation", _Ibid._ It comes out clearly from the above that it was not a doctrinaire decision but a measure of last resort, which was not expected to have direct, immediate and proportional systemic implications.

169. See Frankel, F.R. "_India's Political Economy_, 1947-1977 Delhi, OUP, 1978. pp.344-354 and Chapter Ten on the Congress split and the Radicalisation of Indian Politics, particularly, pp.404-408.

170. The Subjects Committee of the Ruling Congress adopted a resolution on 28th December, 1969 recommending to the Government the nationalisation of the sugar industry in U.P. (Times of India, Bombay, 29 December, 1969, p.1). It was on 29th December confirmed by the plenary session of the AICC. The Subjects Committee resolution said "In Uttar Pradesh the private sugar mills are run on uneconomic and inefficient lines with depleted machinery, and the owners of the private sugar mills continue to exploit the agriculturists of U.P. This has also become a hurdle in the growth of the State." "This session is of the opinion that the private sugar mills of U.P. should be taken over by the Government without delay". (Times of India, Bombay, 30 Dec. 1969).

171. Kumarmangalam, J.G., "Coal Nationalisation. An Analytical Survey" in State Enterprise, Vol.I, No.2, April-June, 1982, p.167, Also Lok Sabha Debates, op.cit., Shri Kumarmangalam M. said, "We had to face the opposition of the most powerful vested interests in the coking coal mines and even now the mine-owners, commission agents, lathials (toughs) and other vested interests, are putting any number of obstacles in our ways", p.38.

172. Kumarmangalam, J.G. op.cit.

173. Ibid. pp.167-168.

174. Kumarmangalam, J.G. "Coal Nationalisation. An Analytical Survey." in State Enterprise, op.cit., Ef. It is believed that the Prime Minister was finally convinced of the rationale of nationalisation when a top executive of a well-known private coal company gave his personal opinion in favour of nationalisation. Das, M., op.cit., p.49, quoting Kewal Verma in Financial Express, 14 Feb. 1973.

Table 1

Production of Coal During 1960-61 to 1973-74 (Figures in million Tonnes)

Year	Public Coking	Public Non-coking	Total Public	Private Coking	Private Non-Coking	Total Private	Total Public + Private Coking	Total Public + Private Non-Coking	Total Public + Private Total
1960-61	3.03	7.64	10.67	12.95	32.10	45.05	15.98	39.74	55.72
1961-62	2.91	6.02	8.93	14.08	32.22	46.30	16.99	38.24	55.23
1962-63	3.01	9.03	12.04	14.31	37.48	51.79	17.32	46.51	63.83
1963-64	3.023	10.663	13.686	14.474	38.173	52.647	17.497	48.836	66.333
1964-65	2.763	10.745	13.508	13.764	37.107	50.871	16.527	47.852	64.379
1965-66	2.781	13.430	16.211	14.179	39.909	54.088	16.960	33.339	70.299
1966-67	2.893	13.082	15.975	13.689	41.360	55.049	16.582	54.442	71.024
1967-68	3.04	14.526	17.566	13.077	41.316	54.393	16.117	55.842	71.959
1968-69	3.458	17.141	20.599	13.733	41.07	54.803	17.191	58.211	75.402
1969-70	3.661	18.086	21.747	14.439	43.809	58.248	18.1	61.895	79.995
1970-71	3.685	17.551	21.236	14.139	40.959	55.098	17.824	58.510	76.334
1971-72	9.079	20.258	29.437	7.676	39.028	46.704	16.755	59.386	76.141
1972-73	14.35	26.96	41.31	2.27	33.64	35.41	16.62	60.60	77.22
1973-74	13.37	61.75	75.12	2.40	0.35	2.75	15.77	62.10	77.87

Source: GOI, Ministry of Steel and Mines: Provisional Coal Statistics, March, 1974. Monthly Review of Coal Production and Distribution (Various Issues), Office of the Coal Controller, Calcutta.

Table II

Production of Coal During 1960-61 to 1973-74 (Percentage Distribution)

Year	Public			Private			Total (Public + Private)		
	Coking	Non-Coking	Total Public	Coking	Non-coking	Total Private	Coking	Non-coking	Total
1960-61	5.44	13.71	19.24	23.24	57.61	80.85	28.68	71.32	100.00
1961-62	5.27	10.90	16.17	25.49	58.34	83.83	30.76	69.24	100.00
1962-63	4.71	14.15	18.86	22.42	58.72	81.14	27.13	72.87	100.00
1963-64	4.56	16.07	20.63	21.82	57.55	79.37	26.38	73.62	100.00
1964-65	4.29	16.69	20.98	21.38	57.64	79.02	25.67	74.33	100.00
1965-66	3.96	19.10	23.06	20.17	56.77	76.94	24.13	75.87	100.00
1966-67	4.07	18.42	22.49	19.28	58.23	77.51	23.35	76.65	100.00
1967-68	4.22	20.19	24.41	18.17	57.42	75.59	22.40	77.60	100.00
1968-69	4.59	22.73	27.32	18.21	54.47	72.68	22.80	77.20	100.00
1969-70	4.58	22.61	27.19	18.05	54.76	72.81	22.53	77.37	100.00
1970-71	4.83	22.99	27.82	18.52	53.66	72.18	23.35	76.65	100.00
1971-72	11.92	26.74	38.66	10.08	51.26	61.34	22.00	78.00	100.00
1972-73	18.58	34.91	53.50	2.94	43.56	46.50	21.50	78.48	100.00
1973-74	17.17	79.30	96.47	33.08	0.45	3.53	20.25	79.75	100.00

Source: GOI, Ministry of Steel and Mines: Provisional Coal Statistics, March' 74 Monthly Review of Coal Production and Distribution (Various Issues). Office of the Coal Controller, Calcutta.

Table III

Annual Allotment of B.G. Wagons for Carrying Coal and Coal Stocks

Year	Annual Allotment of Wagons (Million)	Stock (Million Tonnes)	Stocks Percent of Production
1954	1.17	2.83	7.70
1955	1.19	3.64	9.53
1956	1.26	2.95	7.48
1957	1.35	4.08	9.38
1958	1.44	3.29	7.26
1959	1.48	4.13	8.78
1960	1.63	5.05	9.75
1961	1.78	4.55	8.11
1962	1.90	5.48	8.90
1963	2.07	7.12	10.64
1964	1.97	6.05	9.45
1965	2.15	5.95	8.62
1966	2.13	8.14	11.54
1967	2.16	7.24	10.18
1968	2.25	7.66	10.22

Source: 1. Wagon figure from the office of Coal Controller, Calcutta.

2. Souvenir, ICMA, op.cit., pp.59-60. Worked out by deducting despatch plus export from the production figures.

Table IV

Daily Average Allotment (B.G. Wagons)

Year	Number of Wagons
1954	3208
1955	3251
1956	3446
1957	3694
1958	3934
1959	4043
1960	4465
1961	4877
1962	5196
1963	5675
1964	5399
1965	5884
1966	5841
1967	5917
1968	6186
1969	6520

Normal Carrying capacity of a broad gauge wagon is 22.4 tons

Source: GOI, Ministry of Steel and Mines: Provision Coal Statistics, March 1974

Monthly Review of Coal Production and Distribution (Various Issues),

Office of the Coal Controller, Calcutta.

Table V

Index Number of Whole Sale Price Selected Commodities

(1961-62 = 100)

SL.No.	Last Week of year	Coal	Industrial Raw Materials	Manufacture Intermediate goods	Average of weeks for coal	Annual Change in Coal (Percent)	Annual Change on Industrial Raw Materials (percent)	Annual Change on Manufactured intermediate Products (Raw Materials)
1.	1965-66	125	144	130	222			
2.	1966-67	131	166	148	128	4.80	15.28	13.85
3.	1967-68	158	141	144	148	20.61	-15.06	- 2.70
4.	1968-69	163	172	149	161	3.10	21.99	3.47
5.	1969-70	168	186	174	166	3.07	8.14	16.78
6.	1970-71	168	191	185	168	0.00	2.69	6.32
7.	1971-72	175	179	208	171	4.17	- 6.28	12.43
8.	1972-73	188	236	229	177	7.43	31.84	10.10
	Average Change					6.17	8.37	8.61

Source: Economic Survey 1975-76 pp. 92-and 94.

Table VI

Size Distribution of Coal-mines by Amount of Production

S.No.	Production Group (in Tonnes)	Number of Mines 1970	Number of Mines 1971	Number of Mines 1972	Production '000 tonnes 1970	Production '000 tonnes 1971	Production '000 tonnes 1972	Three Yearly Average 1970-72 (No.)	Three Yearly Average 1970-72 (Production)
1.	Up to 500	151 (18.95)	231 (28.99)	240 (30.12)	190 (0.3)	467 (0.7)	560 (0.7)	26.02	0.57
2.	501 - 1000	60 (7.53)	61 (7.66)	50 (6.28)	486 (0.7)	586 (0.8)	440 (0.6)	7.16	0.70
3.	1001 - 5000	230 (24.86)	198 (24.85)	200 (25.10)	7232 (9.8)	6601 (9.2)	6575 (8.7)	26.27	0.23
4.	5001 - 10,000	130 (16.32)	103 (12.93)	95 (11.93)	11066 (15)	9523 (13)	9850 (13)	13.72	13.73
5.	10001 - 25,000	160 (20.08)	138 (17.32)	125 (15.6)	27967 (37.9)	22250 (36.4)	22250 (29.9)	17.70	34.57
6.	25,001 - 50,000	60 (7.53)	59 (7.01)	78 (9.79)	22034 (29.9)	21905 (30.5)	22850 (30.2)	8.24	30.20
7.	Above 50,000	6 (0.76)	7 (0.86)	9 (1.13)	4718 (6.4)	6604 (9.2)	13133 (17.4)	0.92	11.00
8.	All	797 (100)	797 (100)	797 (100)	73698 (100)	71824 (100)	75658 (100)	100	100

(Figures in parantheses how percentage share in the total)

Source: Indian Minerals Year Book (Various Issues)
(Indian Bureau of Mines)

Table V

Index Number of Whole Sale Price Selected Commodities

(1961-62 = 100)

SL.No.	Last Week of year	Coal	Industrial Raw Materials	Manufacture Intermediate goods	Average of weeks for coal	Annual Change in Coal (Percent)	Annual Change on Industrial Raw Materials (percent)	Annual Change on Manufactured intermediate Products (Raw Materials)
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2.	1966-67	131	166	148	128	4.80	15.28	13.85
3.	1967-68	158	141	144	148	20.61	-15.06	- 2.70
4.	1968-69	163	172	149	161	3.16	21.99	3.47
5.	1969-70	168	186	174	166	3.07	8.14	16.78
6.	1970-71	168	191	185	168	0.00	2.69	6.32
7.	1971-72	175	179	208	171	4.17	- 6.28	12.43
8.	1972-73	188	236	229	177	7.43	31.84	10.10
	Average Change					6.17	8.37	8.61

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2.	501 - 1000	60 (7.53)	61 (7.66)	50 (6.28)	486 (0.7)	586 (0.8)	440 (0.6)	7.16	0.70
3.	1001 - 5000	230 (24.86)	198 (24.85)	200 (25.10)	7232 (9.8)	6601 (9.2)	6575 (8.7)	26.27	0.23
4.	5001 - 10,000	130 (16.32)	103 (12.93)	95 (11.93)	11066 (15)	9523 (13)	9850 (13)	13.72	13.73
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7.	Above 50,000	6 (0.76)	7 (0.86)	9 (1.13)	4718 (6.4)	6604 (9.2)	13133 (17.4)	0.92	11.00
8.	All	797 (100)	797 (100)	797 (100)	73698 (100)	71824 (100)	75658 (100)	100	100

(Figures in parantheses how percentage share in the total)

Source: Indian Minerals Year Book (Various Issues) (Indian Bureau of Mines)

Partial Nationalisation of a Major Consumer Goods Industry in India - the Case of Textiles.

- KAMAL NAYAN KABRA -

-1-

Nationalisation of about a quarter of the textile industry in India is a unique case of extension of State ownership and direct control to one of the oldest, major consumer goods industries in India. That such a major decision was made in the early 1970s by way of an inherent extension of the battery of regulatory and development measures operating for a long period but without either a preceding or subsequent conscious and planned preference for a more direct and drastic policy course like nationalisation highlights some aspects of the political economy of the day (the crisis of and conflict within the ruling party around that time) and of the policy processes in a developing market economy with a strong state participation. Nationalisation becomes, in certain cases a culmination of conventional, policy measures when they get caught in a web of contrary pulls in a multi-goal, ad hoc policy frame. It also comes handy for demonstrating what is called a left of centre policy stance when

political hegemony is hotly pursued by various conservative and liberal political streams. What is not generally recognised, however, is that given a degree of self-confidence, the capitalists do not always and necessarily treat every relative extension of public sector by means of take-overs (as against absolute expansion by means of fresh public investment) as an anathema and unmitigated disaster. On the contrary, they may even opt for it, as the take-over of sick textile mills shows. It appears that the capitalists in their collectivity may adopt a more favourable (or, less hostile) attitude towards partial nationalisation than the individual capitalist directly affected by such a transfer of productive property.

In the present exercise dealing with various aspects of partial nationalisation of the textile industry, we begin with (Section I) by examining various legal processes, terms and conditions defining both formal and substantive nature and implications of the move.

In order to attempt to understand the forces and factors which brought about a qualitative change in the choice of instruments of State intervention

in the textile industry, we propose to give a very brief account of the trends, performance and problems of the textile industry during the period of our study in the following section (II). Then, in Section III, we attempt an analysis of various policy responses to the problems of the textile industry in the light of the chosen policy objectives. It is in this manner that we would like to examine our hypothesis that nationalisation is tried as a measure of last resort when other remedies fail to produce satisfactory results and that it is attempted in a manner in which it causes the least harm or injury to the system of private enterprise. It also remains to be seen whether such take-over are related to the sector or industry specific objectives and/or to broad, overall objectives of public policy.

...

Among the consumer goods industries, the most significant case of take-over by the State relates to textile mills numbering over a hundred. These nationalisations are also important in as much as they relate to one of the oldest and largest industries in India, whose significance in terms of employment, geographical spread, catering to the needs of the masses, intersectoral linkages, exports, contribution to public exchequer and in terms of pioneering role in the introduction of capitalist industrial production is of a high watermark.(1) The first major step in this direction was sick textile undertakings (taking over of the management) Bill, 1972, which placed the management of 46 ailing textile undertakings under the management of the Government.(2) The National Textile Corporation was appointed as the Custodian an General of these 46 undertakings. By this time, 57 textile mills had been brought under governmental management in terms of the provisions of industrial Development and Regulation Act 1951.(3) In order to manage the affairs of sick textile mills taken over by the Government, the National Textile Corporation (NTC) was incorporated in April 1968(4) In all, 103 textile undertakings were being managed by the NTC in 1972. These 103 Government managed textile mills were nationalised in terms of the Sick Textile Undertaking (Nationalisation Act) 1974 with

effect from 1st April 1974.(5) Later on, the management of Laxmi Rattan Cotton Mills and Atherton West Cotton Mills, Kanpur were taken over by the Government in July 1976, to which in April 1978, were added the management of six more mills belonging to the Swadeshi Group.(6) Thus NTC owns controls and manages 103 textile mills while the number of units under its management is 111.

The total installed capacity of these 111 mills in January 1980 was 3.2 million spindles and 47.78 thousand looms accounting for about 16 percent of spindleage and 23 percent of the loomage of the cotton textile industry. Total employment in these mills is of about 2 lakh persons while its authorised and paid up capital are Rs.135 crores and Rs.148.48 crores respectively.(7)

The 1972 management take-over was officially stated to serve the purpose of rehabilitation of the units for maintaining production and employment and to ensure "distribution at fair prices of cheaper varieties of cloth". It went on to add that these tasks "could not be undertaken under any of the existing statutory provisions".(8) It shows how management take over was devised as a policy measure when other existing, less stringent measures could not make private enterprise fulfil essential social tasks expected of a mass consumption goods industry.

The Nationalization Act of 1974 was enacted with a view "to reorganising and rehabilitating such Sick Textile Undertakings so as to subserve the interest of the general

public by the augmentation of the production and distribution, at fair prices, of different varieties of cloths and yarn and for matters connected there with or incidental thereto". (9) The Act provided for the payment of Rs.39.1813 crores to the owners of these 103 mills which was specified in absolute terms for each textile undertaking. For the textile undertakings acquired under the IDRA 1951, there was a provisions for payment of an additional amount by way of management compensation for the period for which the management of these undertakings vested in the Central Government. A number of liabilities of the Sick Textile Undertakings prior to the appointed day continued to apply to the former owners of the undertaking. The payments were to be made through the agency of a Commissioners of Payments appointed for this purpose. The former owners were to receive only such moneys as are left in balance after meeting the liabilities specified in the Act. Since the ownership titles of a number of Sick Mills were not very clear the Commissioners of Payments were required to seek directives form the competent courts in the matter. (10)

The Bill was passed by the Parliament and became a law after it received the assent of the President on December 21, 1974. (11) The Corporation controlling the nationalised segment of the textile industry came to look after one-fourth of the output of the organised mill sector, though the productive equipment of most of the mills in its

charge was extremely worn-out and out-dated.(12) One of the major tasks of the NTC was rehabilitation, renovation and modernisation. The plans for modernisation were expected to cost Rs.250 crores, to be obtained by means of budgetary support and IDBI's soft loan scheme.(13) The NTC mills were/under the given the bulk of the responsibility for the production of controlled cloth and "sell it at less than cost price".(14) In 1980 controlled cloth production by NTC came to over 37% of total controlled cloth production, while the NTC controlled only 23 percent of total looms.

The textile industry saw a big change from simple, administrative interventions to change in the ownership pattern for its sizeable parts. While one group of mills were brought under public management in terms of the Industrial Development and Regulation Act(15), another group underwent the same experience, in 1972 when the textile crisis reached a flash point and forced management take-over pending nationalisation. In 1974, the legal process of nationalisation of 103 textile mills was completed.

Total management compensation to the mills came to Rs.1.38 lakhs per annum, and was considered big some M.P.S as nothing but gratis or bonus,(16) particularly in view of suspention of the legal privileges and protection in terms of Industrial disputes Act and Minimum wages Act available to the workers prior to transfer of management to the Government body.(17) Thus, the take-over affected in order

"to overcome fall in production and resultant employment", showed no pro-worker bias in terms of wage rate and working conditions. Though it was officially claimed that about a lakh of jobs were to be thus saved, it was pointed out that only 25 thousand workers were employed in 26 mills closed at the time of take-over, and thus total employment protected could not have exceeded (18) 30 thousand. The terms on which the former owners were made to forget their textile interests could not be considered unfavourable. On the contrary, the liberal attitude with which compensating amounts were fixed can be seen in giving large sums to even the companies whose share values had reached a high negative level like Azamjahi Mill of Warangal and indiscriminate nature of those payments can be seen in awarding liberal serves to "known crooks" who "committed many economic offences". (19)

Moreover, large investments of public funds had been made to restore the 57 units taken over prior to the 1972 Act to a stage of profitable operations. (20) Additionally, for the 46 mills taken-over in terms of the Act, Rs.10.55 crores of public resources had to be provided for working capital, Rs.77.06 crores for modernisation and Rs.2.65 crores for recouping losses. (21)

The policy of State take-over of badly managed, sick and closed units, as operationalised in the case of textile mills, has to be understood, among other factors, by means of terms on which the transfer took place, the manner in which labour, capital and the state were affected by these terms and the financial and other responsibilities which devolved on the government following the take-overs. When such aspects of the take-over process are kept in view,

it may become possible to appreciate why the Bombay Mill owner's Association, in its memorandum addressed to the government in October 1951 in connection with the changes made in the Industrual Development and Regulation Bill by the second Select Committee, suggested that a "mismanaged unit of a scheduled industry should not be given to "any person" or "any body of persons" for efficient management but should be taken-over by the government itself or handed over to "an authorised, independent body previously formed and announced (22). The preference by private sector of government take-over either directly or by means of a corporation as compared to transfers and/or mergers within the private sector apparently has something to do with the manner and terms of affecting such a transfer, the nature of subsequent management, etc. and at a more basic level to the very character of the state. Our discussion about the policy options to take-over of various textile units has to reckon with the fact that instead of opposition or apathy to government take-over of mismanaged, sick or closed units, we find an express preference for state take-over by a representative association of mill-owners.

In order to attempt to understand the forces and factors which brought about a qualitative change in the choice of instruments of State intermention in the textile industry, we propose to give a very brief account of the trends, performance and problems of the textile industry during the period of our study in the following section(11).

Then, in Section III, we attempt an analysis of various policy responses to the problems of the textile industry in the light of the chosen policy objectives. It is in this manner that we would like to examine our hypothesis that nationalisation is tried as a measure of last resort when other remedies fail to produce satisfactory results and that it is attempted in a manner in which it causes the least harm or injury to the system of private enterprise. It also remains to be seen whether such take-over are related to the sector or industry specific objectives and/or to broad, overall objectives of public policy.

That the textile industry had grown considerably during the British Raj can be seen from the fact that in 1947 there were as many as 423 cotton textile mills in the country with 10.35 million spindles and 2.02 lakh looms, giving on an average employment to 4.88 lakh workers.(23)

Despite efforts for post-war rehabilitation a short period of decontrol, in 1948 and dislocation caused by the partition of the country,(24) there was a marginal growth in the industry as the number of mills increased to 445, giving a production of 4076 million yards of cloth and 1304 million pounds of yarn(25) While the number of spindles increased to 11.24 millions the number of looms installed went down to 2.01 lakhs as the government "has been reluctant to allow any balancing of new spindles with looms" on the ground that the handloom sector needed protection form "excessive competition "(26).

At the time of the beginning of the First Five Year Plan, mills produced 78.6 percent of total cloth production, while 3 million handlooms and 23,000 powerlooms produced the rest.(27)

The industry, generally managed under the managing agency system, saw the phenomenon of replacement of managements since the end of the War to such managements which "in several cases had no experience of any industry, least of all of the experience of the textile industry," as a result of which"both production and quality have suffered.(28)

These switch-overs to new managements seem to relate to the dividends policy followed by the cotton mill industry during and after the War. Despite warning against repeat of the story witnessed during the First War of frittering away profits in the form of liberal dividends, "large dividends were declared during these years of abnormal profits".(29)

The strain of war time production had left the machinery and equipment of the industry in a very poor shape. About 90 percent of the machinery was more than 25 years old and has been worked multiple shifts; even absolate machinery installed prior to 1910 could be found in the mills.(30) During the post-war period the supply of new machinery has not been plentiful, prices of machinery went up approximately three times and deliveries were extended over long periods. Few mills had adequate reserves

or resources for installing new equipment.(31) The over-all situation of the industry may well be seen in the assessment of the overall position of the industry given in the official history by the Millowners' Association of Bombay, "At the commencement of the First Plan, 1951-56, the industry was saddled with as may as 150 uneconomic units. Many of them had gone out of production long before that period.(32) The situation became still bleaker as the industrialists held the view that it is not possible at this stage to get new capital invested in the industry for purpose of renovation or rehabilitation.(33)

What was required at the beginning of the First Plan was a recognition of the weak technical, managerial and financial position of the textile industry. The working party had suggested that a limitation should be placed on the distribution of dividends and raising of investible resources for renovating textile industry.(34)

Each plan had set up production target for the cotton mill industry. Table 1 shows the plan targets and achievements from the First Five Year Plan to the Fifth one. Except for the First Plan, when the targets were exceeded, actual production fell short of the targets in all the other plans. As we see below, this reflects the negative growth rate of minus 0.11 percent experienced by cotton mill industry over the period 1950-1980. (Table2) It also shows the change in the relative shares of the organised, large-scale and decentralised handloom and

powerloom segment of cotton textile production. As can be seen from Table 3, the share of mill production declined from about four fifths of the total in 1951 to about two fifths in 1980. In 1974, at the time of final nationalisation of 103 mills, the share of the mill segment had come down to about 52 percent.

We can see the behaviour of some other indicators of the performance of the cotton mill industry in Table 2. We see that yarn output showed a trend rates of growth of about 3 percent over the period 1950-80; the rate being faster during 1971-80 at over 4 percent, and rather low (about one percent) during the sixties. The compositional change in the structure of cotton industry in India in favour of the handloom and powerloom segments required a fast enough rate of growth of cotton yarn production. The fact that while the number of looms installed in the organised segment increased only marginally from 1.95 lakh in 1951 to 2.06 lakh looms in 1974 (and remained nearly stagnant till about the end of the Fifth Plan), (35) but the number of spindles increased sharply from 11 million in 1951 to 18.14 milliom in 1974 and fell marginally short of double the 1951 level (at over 20 million) at the end of the fifth plan. (36) This was reflected in the relatively lower rates of growth of mill cotton cloth compared to cotton yarn production.

Productivity indices likes output per loom, output per spindle, cloth output per worker show negative performance (Table 2). For the period 1950-1970, it can also be seen

TABLE 1

Plan targets & Achievements (Cotton Textiles)
FIRST PLAN TO FIFTH PLAN

Sl. No.	Plan	Production Targets: Cloth (Million metres)	Production Targets: Yarn (Million kg.)	Per-capita Consumption Target	Achievements: Cloth Million Metres	Achievements: Yarn Million kg.	Achievements: Per-capita consumption
1.	First Five Year Plan	4298	744	13.72	4582	758	14.72
2.	Second " " "	5172	-	16.22	4701	862	14.75
3.	Third " " "	5304	1021	15.90	4415	913	13.94
4.	Fourth " " " (ending 1973)	5100 (1)	1100	-	3957	1092	12.00
5.	Fifth five year " (ending '78)	5600 (2)	1300	-	3251	1240	10.10

(1) Following Mid term Appraisal, reduced to 4500 million metres.
(2) NDC approved the target of 4800 million metres.

Source : (1) Kulkarni, V.B., History of the Indian Cotton Textile Industry, op.cit.
(2) Indian Cotton Mill Federation, Hand book of Statistics on Cotton Textile Industry, op.cit.
(3) Podar, Ramnath, A. The Indian Cotton Mill Industry, op.cit. &
(4) Various Plan documents.

that the rate of growth of real fixed capital is almost negligible (0.04 percent per annum). According to the computations of Sastry, average rate of capacity utilization over 1950-80 has been 90 percent in weaving and 86 percent in spinning.(37)

The trends in production, capacity use, capital formation and various productivity indices are likely to affect the profitability of the industry. Tables 4A and 4B summarise the profitability performance of the cotton mill industry on the basis of RBI studies on company finances. One can notice the following from these figures:

a) Over the period 1951-52 to 1972-73, the profitability has declined.

b) Though there has been unsteady performance of profitability, after 1964-65, the performance has been poorer as compared to the earlier period 1951 -64.

c) Expect for minor exceptions the profitability for all industries has been higher than that for the cotton mill industry.

d) During 1957-58 - 1959-60 and again during 1965-66 - 1972-73, the profitability ratios showed rather low levels.

An important aspect of the relatively faster growth of the decentralised segment, leading to reduced share of cotton mill production, is the rapid and marked growth of power looms. As the table below shows :-

TABLE - II

TREN GROWTH RATES:TEXTILES IN INDIA

(in percentages)

	1950-60	1961-70	1971-80	1950-80
1. Cloth output	2.64	-1.66	0.15	-0.11
2. Yarn output	3.64	1.05	4.12	2.28
3. Real value added	0.03	0.01	-	0.03+
4. Real fixed capital	0.03	0.04	-	0.04+
5. Output per loom	2.27	-2.25	0.15	-0.30
6. Output per spindle	1.23	-2.21	2.32	-0.07
7. Cloth output per worker	0.60	-0.09	-1.31	-0.23
8. Marn output per worker	2.50	2.42	1.90	2.18
9. Availability of cloth per-capita	2.49*	-0.46	0.03	0.23**
10. Consumption of mill cloth per-capita	-1.40*	-4.25	-1.67	-2.40**
11. Price index of cotton textiles	2.49	4.35	7.11	5.00
12. Price index of cotton cloth	3.17	3.88	7.33	4.35
13. Raw cotton price index	-0.35	7.80	7.63	5.74

Growth rates are based on semi-log tren equations.

*= growth rate relates to 1951-60
**= growth rate relates to 1951-80
+= growth erat relates to 1950-70

Source :-Sastry, D.U., op.cit., p.10.

Year	No. of looms in composite mills.	No. of power-looms	No. of Handlooms
		(Lakhs)	
1942	2.00	0.12	20
1951	1.95	0.24	28
1963	2.00	1.46	28.8
1974	2.06	3.10	32.35

Source: Kulkarni, V.B., op.cit, p.215.

While the number of looms in the composite mills in 1974 was practically the same as in 1942 or marginally higher than in 1951, the number of powerlooms increased phenomenally from 24 thousand in 1951 to 3.10 lakhs in 1974, an almost 13 fold increase. The number of handlooms also increased but it could not even double during 1951-1974. As we shall see below, this was partly a result of deliberate policy as also of the market response to the policy of fostering the growth of the decentralised sector. The profitability of the industry and the rate of capital formation also precluded the possibility of a faster growth in the number of looms in the mill segment than the one experienced.

From the social point of view, in addition to the indicators of performance discussed above, two further indicators need to be examined, viz., per capita availability of cloth and the growth of employment in the cotton mill industry.

The following table shows the growth of employment in the cotton mill industry in India during 1951-1974.

Year	No. Actually employed (all shifts) (Lakhs)
1951	7.22
1956	7.89
1961	7.93
1964	8.31
1966	7.88
1967	7.89
1968	7.60
1969	7.40
1970	7.49
1971	7.19
1972	7.62
1973	7.84
1974	8.87

Source : Hand book of statistics, op.cit p.77 and podar R.A., op.cit., P. 78.

It can be seen that the employment in cotton mill sector was fluctuating between 7 to 8 lakh workers. As a result of take-overs employment improved in 1974.

Average per person availability of cotton cloth did not improve during the period 1950-1974. "While in 1939 the per-capita availability of cotton cloth was 15.4 metres, it dipped to 10.99 metres in 1951, the year when the planning era began in this country. In 1956, the year marking the end of the First Plan, the consumption per head at 14.71 metres

was still below the pre-war level. At the beginning of the third plan in 1961, the off-take per head stood at 15.91 metres, a slight improvement over the 1939 level. In 1969, when the delayed fourth plan was started, the per-capita availability was 15.60 metres. Even that modest rate (sic) could not be maintained at the end of the plan in 1974 when the availability of cloth per head fell to 14.60. The figure shown for the year 1961 inculdes the per-capita availability of non-cotton fabrics also. So far as cotton cloth is concerned, the picture is gloomier still. As against the per-capita availability of 15.54 metres in 1939, it was barely 12.88 metres in 1974.[38]

Despite low per-capita availability of cloth and its not inconsiderable short fall from the required levels of cloth consumption[39], it cannot be said that the cotton mill industry was operating in a seller'smarket. Often it had to reckon with sluggish market and inadequate market offtake of its production. The general price rise, particularly in the prices of foodgrains along with slower growth of agricultural incomes in comparison to non-agricultural ones (with former having higher income elasticity of demand for mill cloth) reduced and/or slowed down the growth of purchasing power in the hands of the masses and forced them to make reductions in their customary purchases of cloth[40]. Man-made fibres (a metre of such fabrics replaces as many as ten metres of cotton cloth) also created marketing difficulties for cotton cloth.[41] The fact that during the

period 1961-1970 and 1971-1980 prices of cotton mill cloth showed a trend rate of increase of about 4 percent and over 7 percent, percent respectively added to the sluggish demand (See Table 2). Smuggling of synthetic cloth and the growth of a large market in second hand clothes in the informal sector [illegible] also contributed to a fall in the demand for cloth (which fell in the aggregate at 0.5 percent annually and per-capita consumption declined at the rate of 2.5 percent annually over 1951-72)(42). The size of stocks carried by the mills (See Table 5) gives an idea of the 'Marketing' problem faced by the industry particularly of the likely magnitude of unsold stocks if cotton mill's production were not to decline.

It can be seen that during the period 1957 to 1972, cloth stocks were generally over 10 percent of the relevant year's production, and had been, in some years, as high as one-fifth of yearly production. Yarn stocks did not accumulate to the same extend and rarely exceeded 3 percent of yearly production.

The over-view of the performance of the cotton textile industry over the period 1950-1974 shows that the industry cannot surely be considered to have done well in terms of criteria like technical, financial, marketing, growth, modernisation and innovations and meeting social objectives. Given such aggregative picture of the performance of the industry, it is little wonder that a large number of

individual mills should be facing acute problems and many may succumb to the weight of these problems. They became sick were closed or reached the verge of closure and non-viability . It has been reported that at the time of the commencement of the first plan, the industry was saddled with 150 uneconomic units.(43) The Working Group for the Cotton Textile Industry, appointed by the National Industrial Development Corporation in 1960, reported that 13 spinning mills and 26 composite mills were totally closed in January 1960 and out of these 10 spinning and 10 composite mills were worth scrapping.(44)

This is not to suggest that all the mills were in a bad shaps. "there are viable and prosperous mills in every part of the country, but no textile region as a whole, howeverm old and developed it may be, is in such a happy position.(45) As the Maharashtra Cotton Textile Committee pointed out in 1967, there were units with a high level of efficiency and there were particularly in mofusil areas", which have remained almost axactly as they were established fifty or sixty years ago.(46) Even in terms of profit making, it was seen that some mills (like Victoria Mill whose profits soared by 300 percent in 1974 over 1973, of Laxmi Vishnu by 200 percent, of Kohinoor Mill by 80 percent of Ambica Mills by 75 percent and Tata Mills by 50 percent)(47). The Textile Reorganisation Committee (1968) appointed by the Gujarat Government classified the mills into three categories very weak units (to be scrapped), marginal

units and units that possess sound management.(48)

However, the overall performance of the textile industry could not be altered by a small number of these good, modern, well-managed mills. Taking a broad view of the time span 1950 - 1972, an examination of various trends in the textile industry shows that the period of 1950 to 1964 can be considered one of even performance, marked by growth of output, per-capita availability, employment, etc. Even with respect to capacity utilization and profitability, adverse performance of some years could not mar the overall record. Stock accumulation and export performance during this period could not keep up with the other indicators.(49)

The year 1964 marked a turning point for the textile industry. During the period 1964 to 1971, many important trends changed for the worse and it can really be called the period of crisis.(50) While employment, capacity use, per-capita availability and profitability showed downward trends, exports and inventory holdings remained stagnant. Cloth output from mills also declined from 4654 million metres in 1964 to 4245 million metres in 1972, with still lower level being turned out in the preceding three years. If stock accumulation did not go up, it could well be because the output growth was not maintained after the heavy inventory level of 1957, the year after which production continued its declining path leading to a reduction in inventory-holding.(51)

TABLE 4A

Cotton Textile Industry
Profitability Ratios
1951-52 to 1965-66

Years	Gross profits * As percentage of Sales.	Profits As percentage of Net Worth.
1951-52	9.0 (9.7)	9.6 (9.6)
1955-55	8.3 (10.3)	9.6 (9.1)
1957-58	9.6 (10.3)	13.8 (11.0)
1958-59	7.0 (9.9)	7.7 (9.3)
1959-60	4.8 (9.4)	1.2 (8.7)
1960-61	2.8 (8.0)	1.2 (6.5)
1964-65	3.6 (8.6)	0.3 (7.1)
1965-66	6.3 (10.1)	7.1 (10.5)

* Prior to interest & Managing agents remuneration but after depreciation.

N.B.I. Figures in Paranthesses relate to all Industries.

Source : Handbook of Statistics, op.cit., quoting RBI, p.81.

TABLE 4B+

Cotton Textile Industry
Profitability Ratios

Years	Gross Profits* as percentage of Sales net of rebate, discount, excise duty & cess	Gross Profits* as percentage of total Capital employed.
1965-66	4.9 (10.7)	5.4 (10.1)
1968-69	4.4 (8.8)	5.3 (8.5)
1970-71	6.0 (10.3)	7.8 (10.3)
1971-72	4.9 (9.9)	6.3 (10.3)
1972-73	6.9 (9.4)	9.7 (10.2)

* Prior to Interest, But after depreciation.

N.B. Figures in brackets relate to All companies.

Source: Kulkarni, V.B., op.cit., P. 221 quoting RBI.

TABLE 5.

STOCKS OF YARN AND CLOTH WITH MILLS

Year	Stocks of Cloth in million metres	Percentage of stocks of cloth to the total production of cloth	Stocks of yarn in million Kgs.	(Percentage of stocks of yarn to the total production of yarn).
1957	997.32	(20.5%)	13.69	(1.69%)
1958	1016.03	(22.6%)	19.81	(2.59%)
1959	-	-	-	-
1960	-	-	-	-
1961	606.72	(12.9%)	17.95	(2.08%)
1962	709.88	(15.6%)	15.82	(1.8%)
1963	623.10 H	(14.1%) H	16.88 H	(1.9%) H
	412.95 L	(9.3%) L	13.34 L	(1.5%) L
1964	628.80 H	(3.5%) H	19.48 H	(2.0%) H
	287.70 L	(6.2%) L	16.58 L	(1.7%) L
1965	644.85 H	(14.1%) H	33.68 H	(3.6%) H
	455.25 L	(9.9%) L	18.88 L	(2.0%) L
1966	494.85 H	(11.7%) H	22.45 H	(2.5%) H
	360.60 L	(8.7%) L	14.99 L	(1.7%) L
1967	410.85 H	(10.0%) H	22.14 H	(2.5%) H
	342.30 L	(8.4%) L	13.93 L	(1.6%) L
1968	563.70 H	(12.9%) H	26.96 H	(2.8%) H
	369.90 L	(8.5%) L	21.93 L	(2.3%) L
1969	425.85 H	(10.0%) H	21.37 H	(2.2%) H
	350.10 L	(8.4%) L	14.94 L	(1.6%) L
1970	354.72	(8.5%)	17.89	(1.9%)
		(8.5%)		
1971	361.50	(9.1%)	22.73	(2.6%)
1972	339.45	(2.0%)	18.86	(1.9%)

Source : Compiled from Report of Indian Cotton Mills Federation, 1970, P.195 and Mill pwners' Association, 1992, p.355, quoted in Mo hota, Textile Industry and Modernisation, Bombay, Current Book House, 1972, pp. 22-29.

The Corporate dividend policy during 1962-1969 in the textile industry continued its thrust of maintaining dividends as during the immediate post Second War period. A study, based on the RBI statistics, showed that "the companies tried to maintain stable dividends even in the abnormal years of 1962 to 1966. During the year 1968-69, the net profit decreased from Rs. 608 lakhs in the previous year to minus Rs.57 lakhs, but the amount of dividend declined marginally from Rs. 1051 lakhs to Rs. 1013 lakhs in 1968-69."[52] Thus the capacity of the industry to undertake modernisation and technological upgradation came up against, among other things, the constraint of dissipation of the possibility of internal resource generation owing to liberal distribution of dividends.

The macro picture of the performance of the textile industry which we have sketched in the preceding can be supplemented by an examination of the performance of a good number (to be precise, 76) of the mills which were brought under the NTC umbrella. We could obtain a good deal of information about these mills from the generally unpublished reports of the Investigation Committees appointed under the provisions of the Industrial Development and Regulation Act, 1951 and from the Survey Reports periodically prepared by the office of the Textile Commi-ssioner. A synopsis of these reports is presented in the Appendix I at the end of the Chapter. The following statement shows the frequency distribution of eleven generally

mentioned factors leading to failure of mills necessitating their take-over. It also shows that 3/4 of the mills were actually closed at the time they were investigated/surveyed.

FREQUENCY DISTRIBUTION OF REASONS FOR FAILURE OF MILLS AND THEIR CONSEQUENT TAKE-OVERS

(Given by the Investigating Committee Reports and Survey Reports)

1. Government Policies:
   (Statutory Price control, Excise duties, Dearness Allowances, compulsory holidays etc) - 25 (32.89%)

2. Market Factors:
   (Depression, tight/sluggish market, No/Little incentives for export promotion, low demand, price etc.) - 38 (50.00%)

3. Management:
   (Mismanagement, frequent changes in management, lack of proper interest, wrong policies, motives of the management to the detriment of the firm etc.) - 52 (68.42%)

4. Labour:
   (High wage bill, high labour complement labour troubles, strikes, non-cooperation etc) - 55 (72.36%)

5. Unforeseen Factors:
   (War, Fire, Flood, Unprecedented crisis, poor crops, etc.). - 25 (32.89%)

6. Financial Aspects:
   (Low capital base, scarcity of funds, adverse debt-equity ratio, continuous losses, unabsorbed depriciation, heavy borrowings, high interest charges etc.) - 71 (93.42%)

7. Non-availability/High cost of Raw-materials: - 54 (71.05%)

8. Under Utilisation of capacity : - 40 (52.63%)

9. Plant & Machinery:
   (Old/Obsolete/conventional type of machinery, no/inadequate modernisation, renovation, repairs etc.). - 51 (67.10%)

10. Miscellaneous:
(Power shortage/failure, Unsatisfactory working, low productivity, declining net worth, observed extra holidays etc.) - 62 (81.57%)

11. Litigations: -19 (25.00%).

Recommendations (28 cases)

a)	Government take-over	: 12
b)	Financial assistance to the Management	: 6
c)	Management by third party	: 1
d)	Scrapping off	: 1
e)	Other Functional recommendations	: 6

Number of Mills closed down : 58 (76%)

Number of Mills making ; a loss : 66 (87%)

Source : Various Investigating Committee Reports and Survey Reports of by the office of the Textile commissioner. (Number of mills studied 76).

An analysis of the factors found responsible for less than viable and desirable state of affairs of the surveyed or investigated mills sheds some interesting light on the conditions which made the policies other than that of take-over ineffective. So much so that these official enquiries listed Government policies regarding statutory price controls, taxation, labour laws and wages among important causal factors in about one-third of the

cases. In addition, high interest rates and power and infrastructural bottlenecks listed under different heads and in some cases underutilisation of installed capacity had something to do with public policies leading to sickness of many textile mills.

The lack of capacity to overcome the impact of the Government policies as also to withstand unforeseen factors (listed in about 33 percent cases) which must have had a hand in the poor showing by some of the units go to underline the role and capability of mill managements. For over two-thirds of the cases mismanagement in various forms was found to be a significant factor leading to failures, closures and sickness of the textile mills. Thus it appears that the assertion in History of the Indian Cottan Textile Industry sponsered by the Millowners' Association of Bombay, that "The subject(of'sick' textile units owing to poor management) was often debated in parliament and elsewhere and no decisive evidence was producted to prove that mills come to grief only because of bad management", (53) is partly correct so far as "the sick mills are example of deep rooted malaise within the national economy and within the industry and cannot be attributed to any single reasons (54). However, when the History goes on to absolve" bad management of its role, on the basis of the fact that none of the reports of various committees appointed to go into the affairs of these mills under the provisions of the Industrial Development

and Regulation Act 1951 were published and only in one instance (out of 65) "mismanagement" (in the case of The Kanoria Industrues Ltd. (Cotton Mills Section) Konnagar, West Bengal) was blamed and generally financial stringency and labour trouble were found to be the culprits (55), the argument is weak, facetious and not based on adequate evidence (as can be seen from Appendix I and the frequency distribution statement).

Moreover, financial stringency and labour trouble are often taken care of by good management and lockouts and uneconomic working generally point to poor management. The frequency distribution statement of various factors causing failures and forcing nationalisation shows that in over 93 percent cases financial stringency and [illegible] financial mismanagement are listed. This factor certainly reflects the quality of management, though the impact of various other factors also shows up in poor financial performance and accentuates the difficulties faced by the enterprise. More particularly, poor state of plant and equipment and its inadequate maintenance etc. (reported as operative in over 2/3 of cases) and under-utilisation of capacity (in more than half [illegible] the mills) contributed to the malaise afflicting textile works. The companies with better management did overcome these problems as shown by the Textile Reorganisation Committee (Gujarat) and the Cotton Textile Committees appointed by the Government of Maharashtra. (56)

High Cotton prices and non-availability was an important exogenous factor which had a hand in the ailment afflicting cotton textile industry in over 71 percent cases. Quite a few companies had to face bad days as they got invol-ved in litigation. About 87 percent of the 76 individuals units studied were found to be running at a loss and over three-fourth were closed at the time the report was made on their operations. We examined the recommendations made by the committee in 26 cases and found that in about half the cases Government take-over was recommended. In about one-fourth cases financial support was recommended and in an-other one-fourth cases specific functional steps to rejuvenate the company were recommended. Thus, the individual cases of the taken-over mills show that the factors which operate at the level of the industry as a whole had a hand in varying measures in individual instances as well and reinforced the working of macro-level factors.

III

The pre-independence growth of the cotton textile industry, which eliminated imports by the time of the outbreak of the Second War and made India and exporter of cotton piece-goods, owed a great deal both to the Swadeshi movement as well as to statutory protection obtained by the industry for 17 years (though it was effective only during 1930-41)[57]. The War time scarcities led to the intriduction of a comprehensive system of controls in 1943 and except for a short period in 1948 when controls were removed and

reimposed, the industry continued under controls during 1943 to 1953. For administering the controls, a Textile Commissioner was appointed along with a Control Board.[58] Like all the major organised industries, textiles also came under the purview of the Industrial Development and Regulation Act, 1951 as one of the Scheduled industries in terms of the provisions in Chapter III of the Act.[59] The technical and statistical wings of the Textile Commissioner's organisation were strengthened in order to assume a new role of development instead of regulation alone,[60] making the organisation "serve as a development wing of the textile industry".[61]

A major change in the regulation of textile industry after 1947 was the discontinuation of the policy of protection on the basis of the recommendation of the Tariff Board. In April 1947, the protective duties were converted into revenue duties.[62] Thus the approach to the textile industry moved away from commercial policy to various interventions in the domestic sphere.

An integrated policy approach to textiles, particularly cotton textiles was evolved in a muddled way by means of various specific, <u>ad hoc</u> interventions, their reviews (mainly by means of various official and semi-official committees, working groups, study teams etc),[63] in the process of arriving at plan targets and, of course, on the basis of lobbying and counter-lobbying by various interests.[64]

Expect for a removal of production, price and distribution controls in 1953 and the earlier replacement of protective duties by revenue duties, the role of the State in the sphere of cotton textiles was determined generally in terms of the Government's industrial policy as enunciated in 1948 and 1956. Both the documents recognised the role of private sector in the textile industry. For all the industries left for the operation of private enterprise, the State undertook to be "fair and non-discriminatory" and to "facilitate and encourage these industries in the private sector" in accordance with plan programmes and by means of provision of infrastructural facilities and by fiscal, financial and other measures.(65)

However, given the differentiated structure of the cotton textile industry (the mill segment and decentralised segment of handlooms and powerlooms), the State's approach to the industry had to take into account the pronounced policy stance towards small-scale and cottage industries. Following the policy towards small-scale industries, the First Plan envisaged that " whenever a large-scale industry competes with a cottage industry, the appropriate course to adopt would be to try and formulate a common production programme,"(66) based on considerations of efficiency, scope for development and need for increasing rural employment.(67) The common production programme was to be based on reservation of spheres of production, non-expansion of the capacity of the large-scale

industry, imposition of a cess on the large scale industry, arrangement for the supply of raw materials, and co-ordination for research, training, etc.(68)

Since cotton textile industry was the pre-eminent case of co-existence and competition between the large-scale and the small-scale segments, the policy perspective regarding cotton textile industry was constantly influnced by the approach towards the small-scale sector. Not only the reservation of spheres had already been attempted during the early fifties, but the First Plan spoke of the need for its further extension in view of the unemployment problem.(69) In the mill segment of the industry, the emphasis was on fuller utilisation of existing capacity.(70)

The Second Plan and the subsequent plans continued the same perspective.(71) The main thrusts of public policy towards the cotton mills based on an active concern for the handlooms and powerlooms consisted of the following elements: reservation of spheres of productions, freezing of weaving capacity in the organised, large-scale mills, encouragement to conversion of handlooms into powerlooms, differential excise duty on mill cloth, and cess on mill cloth for raising funds for the development of the decentralised segment.

In 1949, excise duty was imposed on mill cloth with varying incidence on different varieties. Apart from affording protection to small-scale production, these duties also formed part of the policy of taxing the

consumption of the general public, mainly the poor, in order to raise plan finances. In many successive budgets, these duties were enhanced.(72) In 1952, a cess was also levied in order to finance the development of the decentralised segments of the industry. In 1949, the duties on the cotton mills fetched Rs.12½ crores, and the revenue from this source increased to Rs.80 crores in 1956. Though at times some relief was given in these discriminatory duties, probably in response to the demands of the mill owners, they remained in force all the same.(73)

In 1950, the policy of reservation of certain items such as sarees, dhoties, lungis, gumchas, chadders, bed-sheets, table-cloth, napkins, dusters and towels was introduced, which prohibited the mills from the production of these items. The mills were also required to compulsorily manufacture hank yarn in specified quantities for supply to the handloom sector.(74) In addition to the reservations, the mills were not allowed to add to their installed capacityand for each plan (See Table 1) the mills had to struggle for a higher target without much success. For quite some time, the production target for the mill segment hovered around 5,000 million yards and except for licences for automatic looms for export production, additions to mill loomage was not permitted.(75) Thus, the additional requirement of cloth were to be obtained by the expansion and strengthening of handlooms and powerlooms to the exclusion of the mills. As seen earlier,

this policy led to an impressive growth of the decentralised sector. The growth of the decentralised sector generated prospects for growth in mill production of yarn. While to a certain extent spinning capacity and yarn production in the mill segment increased, but owing to the establishment of more than 200 co-operative spinning mills,(76) the corporate mill segment could not gain the full benefits of the growth of decentralised sector. Following the recommendations of some expert committees, conversion of handlooms into powerlooms was also encouraged thought Karve Committee wanted that spinning too should be encouraged in the small sector by popularising. Ambar Charkha.(77)

Adequate and regular supply of good quality cotton at reasonable and stable price (which are sufficiently remunerative and are not unduly high to the users) is an important pre-condition for the healthy functioning of the cotton mill industry. Without going into the problems faced by the industry on account of the supply of its basic raw-materials,(78) it can be said that adequate supply of long-staple cotton and steady prices have necessitated governmental intervention of both regulatory and developmental variety. For stability of raw-material supply, multi-fibre policy (also required for many other reasons)(79) has been encouraged.

Through public intervention, both production and quality of cotton have shown improvements. However, instability of production and prices (despite the role of the Cotton Corporation of India and cooperativisation of cotton trade) trended to persist. The examination of the problems faced by the taken-over mills (Appendix I and statement of reasons for mill failures)showed that many of them found raw-material supply to have caused them considerable difficulties. Imports of cotton in considerable quantities were allowed and were generally in excess of exports.(80)

Another area in wheih considerable governmental efforts were made concerned the modernisation of cotton mills. The account of the conditions in the taken-over mills, as given in the Appendix, shows the state of plant and equipment in a large majority of the mills investigated or surveyed. Beginning with the Working Party under the chairmanship of Sir Ramaswamy Mudaliar in 1950, emphasis on modernisation has been a constant theme in all the discussions on the problems of revitalising the cotton mill industry. In 1954, the Parliament passed a resolution urging modernisation of the textile industry.(81) A working group of the National Industrial Development Corporation (1960) estimated the cost of modernisation programme in the region of Rs.800 crores, and suggested that during the period of the Third Plan an annual sum of Rs.30 to 35 crores would have to be provided for the purpose. During the period of the Third Plan, the value of production of indigenous textile

machinery was of the order of about 10 to 12 crores per year. On the basis of the anticipated expansion in the production of domestic machinery, it was anticipated that 75 percent of the machinery requirements during the Third Plan period could be met by domestic producers of textile machinery.[87] The working group concluded that during 1961-62 to 65-66 total foreign exchange requirements for modernisation would be of the order of Rs.22.6 crores. Given the policy of freezing weaving capacity in the mills segment, steep rise in prices of machinery, liberal distribution of dividends and lower profitability ratios in textile industry in comparison to other industries, it was doubtful whether the mills would have been able to generate these resources internally or would have been able to raise them from the capital market. In fact, the cotton textile mills were left with little inducement to undertake fresh investment and were diversifying into other more profitable lines of industrual production having advanced techonology.

In such a situation, the givernment policy of encouraging modernisation had to face difficulties in getting requisite funds. Moreover, since the domestic producers of textile machinery were fully booked, there was a piling up of backlog of modernisation. Financial stringency was exacerbated by rising cotton prices, rising tax bill,[83] rising wage bill (on account of adjustment of wages to rising prices) and rising interest rate.

Two official enquiries into the textile industry in Maharashtra and Gujrat, (whos account for a large part of textile mills in the country) underlined heavy back-log of modernisation.

Hence the term lending institutions were made to pump in a good amount of resources for revitalising textile mills. The assistance sanctioned by the Industrial Development Bank of India since July 1964 to June 1977 to the textile industry amounted to Rs.350.34 crores.[84] The working group on textile for the fourth plan estimated that the programme of modernisation would necessitate the replacemnt of 2.1 million spindles and 26 thousand looms at the cost of Rs.180.55 crores. But the actual investment during the five year period ranged between Rs. 15 to 20 crores per annum. Thus, the Taskforce concluded that modernisation was slow mainly on account of shortage of funds with the mills, increase in price of raw-material and diminishing profitability accompained by rise in machinery prices.[85] The soft loan scheme initiated by the government and by some financial institutions like IFCI, IDBI, ICICI, etc. were the main steps for providing long term finance for modernisation. Howeverm since the rate of real capital formation during 1950-60 was almost negligible at 0.03 percent per annum during 50's and 0.04 percent during 1961-70 (See Table 2) one finds that not much could have been expected by way of installation of new machinery of a later vintage.

The provision of financial assistance for modernisation was in addition to two basic steps for encouraging modernisation. Way back in 1952, the textile machinery industry was granted protection. This step did not preclude release of foreign exchange, whenever needed, for import of advanced textile machinery.(86) However, as a result of the general condition of the industry as discussed above and under the impact of the policy of positive discrimination in favour of the handlooms and powerlooms, both the capacity and willingness to invest in modernisation by the textile companies became weak. In the face of the industry's own flagging interest in revitalisation, public policy measures of ensuring finance and availability of machinery both from domestic and external sources (though at spiralling prices) could not prevent the textile industry from remaining saddled with antiquated machinery.

The policy of the promoting a restructuring of the cotton mill industry by increasing the weightage of decentralised sector and modernisation of the mill segment did not take into account the objective of ensuring easy access to cloth by the relatively poorer sections who form such a large part of the Indian Society. How unevenly our low per-capita availability of cloth is distributed among various sections can been seen from an estimate maintaining that 5 percent of the rural households consume one metre of cloth per annum, and bottom 40 percent of the household consume 51 metres annually. About 60 percent under 3.3 metres while richest 5 percentconsume

of the households consume less than the national average, and about 10 percent the average length of 12 metres.[87] With elasticity of demand for cloth with respect to relative price estimated at minus 0.59,[88] trend rate of growth of the prices of cotton mill cloth during 1950-60, and 1961-70, being 3.17 percent and 3.82 percent per annum respectively and an increase of 50 per cent in the index for cotton mill prices during 1972-73 to 1974-75 and under the impact of slow growth of non-agricultural incomes and faster growth of food prices, the consumption level of cloth for the majority deteriorated.[89]

With the objective of supplying at least a part of the clothing needs of the poor masses at fixed and stable prices, the controlled cloth scheme was introduced in October 1964, the year, as seen earlier, which marked a turning point for the industry, inaugurating its period of crisis. Under the scheme, the mills were directed to produce 45 percent oftheir total production in the form of dhoties, sarees, shirtings, drill and long-cloth to be supplied at prices fixed by the government and distributed through National Cooperative Consumers' Federation and its affiliates.[90] The distribution took place on the basis of fixed quotas for each state. The prices fixed for the controlled cloth were not remunerative, as was admitted by the government in the Textile Policy Statement issued in 1978. The scheme was a mixture of production, price

and distribution control. It also contained an element of dual pricing in the sense that the mills were allowed to fix the prices of uncontrolled cloth in a manner which would off-set their losses under the controlled cloth scheme.

The quota of controlled cloth was changed from time to time. In 1965 it was raised to 50 percent but was reduced to 25 percent in May 1968. In June 1971, an absolute figure of 400 million metres of controlled cloth was fixed and the controlled cloth prices were raised in 1974 by 30 percent, in the face of a much higher increase in cost of production claimed by the Industry. The quota, however, was doubled alongwith the increase in prices. According to industry, the scheme involved a loss of Rs.80 to Rs.90 crores per annum for the mills.

The scheme involved, at times statutory and at times, voluntary price control. The statutory provision involved a penalty on the mills for non-fulfilment of quotas of controlled cloth production assigned to them. "Many a mill could not comply with quota fixed by the Textile Commissioner either because it was cheaper to pay penalty for noncompliance or because they just could not produce cheaper varieties, given their product-mix. The more enterprising ones, however, found it advantageous to meet their obligation by commissioning other mills to produce controlled cloth for them."(91)

The scheme could not go far in meeting its avowed objectives. For one thing, there was under fulfilment of quota. Second, distribution was faulty leading to diversion of the controlled cloth from the targeted population. Then, the prices of uncontrolled cloth rose sharply, building up consumer resistance. The price rise during 1972-73 to 1974-75, as seen earlier, was quite high. Since controlled cloth production required short and medium staple cottons, it led to slackening of exports which require similar qualities of cottons. It has also been suggested that the controlled cloth varieties did not confirm to market demand and did not catch up with consumers, despite low prices, leading to unwanted amassing of inventories. Thus the controlled cloth scheme contributed to the difficulties faced by many mills. However, after the NTC came to acquire many mills, the burden of controlled cloth production was gradually shifted to it and to handlooms. Thus nationalisation came to provide the private cotton mills an escape from the burdens of the controlled cloth scheme.

IV

The review of the performance of the cotton textile industry (Section II) and an examination of various policy measures adopted by the government towards the industry (Section III) highlight some important factors which may indicate some elements of the thinking and pressures making for the nationalisation of almost one-fourth of

of the cotton mill industry inthe first half of 1970s. What is it that the government expected with regard to the country's oldest organised, capitalist industry meeting a prime want, next only to food, of the people? Increased production of cloth by expansion of composite mills, particularly their loomage was not on the agenda. The goal was restructuring of the industry in favour of handlooms and powerlooms, particularly conversion of handlooms into powerlooms. Apart from encouraging employment by means of the Second Plan strategy of concentrating the bulk of additional production of goods of popular consumption in the village and small-scale industries, the decentralised sector was sought to be encouraged for raising the productivity and income levels of millions of handloom weavers in rural areas. Improving the consumption of cloth by the indigent masses, expressed in terms of increasing per-capita availability of cloth, was also an objective. However, it was the unorganised sector which was to play the leading role in turning out the additional output needed for imrpoving per-capita availability of cloth. Though target of 3 0 yards was indicated as providing the perspective for planning increased cloth output, no minimum consumption level of cloth, analogous to norm-level of food intake, came to be evolved as a guide to policy formulation. Beginning from 1964, the controlled cloth scheme represented major state initiative

for ensuring steadily rising consumption of cloth by the poorer sections, though the results turned out to be counter-productive.

Textile being an important foreign exchange earner and in order to maintain the viability of the existing mills, which had overworked and worn-out machinery and equipment, modernisation of textile mills was also sought to be actively encouraged. Thus a diverse set of objectives guided public policy regarding the textile industry. Not all of the objectives were specific to the industry as such. For example, restructuring the textile industry in favour of the decentralised sector was derived from the small-scale and village industries' policy in general and formed a part of overall development policy and strategy. The policy of using fiscal measure to blunt the technologically superior competitive edge of the modern, large composite mills was carried to the extent of reserving certain products exclusively for the small sector (lumping handlooms and powerlooms together) and imposing a cess on the technically advanced sector for raising funds earmarked for development of the decentralised sector.

This general macrp objective had to be reconciled with the industry-specific objective of modernising heavily worn-out and outdated machinery not only in order to ensure continued operational viability of the textile mills but also in order to enable them to acquire

competitiveness in export markets. Heavy financial requirements of rehabilitation and modernisation of the mill segment of the textile industry with a virtual embargo on output growth and installation of additional looms of [illegible] were to be met by combined efforts of the industry and various public financial institutions.

This was expected to come about in an unfavourable context of the War and post-war liberal adividend distribution, discriminatory fiscal burdens, frozen weaving capacity for the large composite mills positive and discriminatory preference to the unorganised sector, [illegible] and planning and public policy supported expansion opportunities in a large number of new and import-substituting, technologically more advanced and more profitable organised sector industries and reduced market demand for cloth.

One has also to reckon with the fact that expansion of powerlooms was an option abailable not only to the handloom weavers by way of conversion of their looms. It was also available, and probably to a larger extent to those who normally operate in the organised sector and have better financial, managerial and marketing resources and skills, and may well be induced to avail of the discriminatory fiscal treatment offered to the powerloom segment. Among those who would be expected to gravitate to the powerloom segment one may well expect the established

textile interest, who not only have established market network and standing but may well try to pass on their powerloom produce as mill-produce by resorting to false stamping in order to encash and sustain brand name image and goodwill built up over time for mill cloth,(92) and also save the differential excise duty for themselves. Many have commented on various kinds of malpractices, inculding disregard of labour laws by the powerloom segment.(93) It may be difficult to postulate that there was any watertight compartmentalisation between those who operated in the mill segment and those who operated in the powerloom segment.

In any case, the policy of conversion of handlooms into powerlooms, recommended and supported by the Kanungo Committee and Powerloom Enquiry Committee, 1964, was considered to be instrumental in converting the rural weavers into operators of powerlooms and thus ameliorate their conditions. The condition that the handloom weavers should be the sole beneficiaries of the policy of encouraging handlooms was violated in many cases,(94) as the motivation and <u>modus operandi</u> of the organised sector entities on the one hand, and limitations and weaknesses of the handlooms weavers on the other, were neither recognised nor were dealt with. As the Ashok Mehta Committee argued, "In regard to the regularisation of unauthorised powerlooms from time to time, Government were apparently

in two minds------. This somewhat inconsistent approach could be traced to the policy adopted by the government in the matter of regulating the powerloom sector in the country. Government was not anxious to increase the number of powerlooms. But the effectiveness of this policy was considerably diluted by the conditions created by Government's policy itself in the matter of reservation of fields of production and the pattern of excise levy. The restrictions placed on the loomage expansion in the textile mill sector together with the increasing demand for cloth in the country naturally opened a wider area for the decentralised sector to expand. In the decentralised sector itself, as [illegible] between handlooms and powerlooms, the powerlooms with their better technique and higher productivity, were in more advantageous position than the handlooms.(95)

Thus handlooms and powerloom units with less than four looms were placed in the same category for purpose of positive discrimination. Further, a necessary separation between small powerloom establishments and bigger enterpreneurs and established companies was postulated Since these distinctions did not operate in practice, the textile policy turned out to be counter productive. The assumptions on which the policy was based were quite the opposite of the actual conditions. The organised mill sector went on a virtual investment strike leaving the task of modernising their existing capacity largely

unfulfilled, despite financial support provided by public financial institutions. As Seen earlier, the better off units diversified in the conglomerative sense, reducing significantly the plough back of surpluses in the mill segment. The powerloom segment expanded rapidly but without ameliorating the productivity and earning capacity of a large number of handloom weavers. The powerloom segment became full of malpractices, fictious and artificially separated units, creating a lot of doubt and unreliability regarding the statistics about this branch of textile industry.

As seen earlier, practically all the indicators of performance of the textile industry worsened. The manner in which a differentiated policy with respect to the organised, large-scale and decentralised, small-scale segments of the textile industry was formulated and implemented made an observation of the authors of the Framework of the Second Five Year Plan come true almost prophetically, "Needless to say, a great deal of effort and organisation will be required for resuscitating small-scale industries. Should these not be forthcoming, the emphasis on capital-saving methods may well land us between two stools - the large-scale capital using methods may get discouraged without other methods filling up the gap. We may thus have the worst of both the worlds. (96)

The impact of such policies on many mills, generally the ones owned and/or controlled by entrepreneurs who were

not too resourceful or entrenched into many industries (as can be seen from ownership/organisational information about 75 nationalised textile mills in column 4 of Appendix I), i.e., those units which, by and large, did not belong to large industrial houses [97], was one of converting them into 'sick' units. The least diversified mills, i.e. the ones whose overwhelming interest remains confined to textiles, had the worst performance in terms of all the financial ratios for 60 mills studied over the period 1976-81.[98] One has reasons to believe that similar trends obtained earlier. Some of the mills became mismanaged owing to their transfer to managements which lacked experience of industrial management and were mainly interested in financial manipulations. The restrictions on expansion and production of certain popular items, general fall in the demand for cloth, differential taxation, rise in the prices of textile machinery, uncertainty and fluctuations in the availability, price and quality of cotton, etc. contributed to pushing the mills beyond the viability frontier.

A large number of such factors contributed to widespread industrial sickness, which was unwittingly accentuated by a set of policy measures which failed to come to grips with the differentiated structure of the textile industry and the general dynamics of re-organisation of private industrial capital away from a conventional consumer goods industry like textiles. The freeze on its expansion

1976 was 0.294 and in 1981 it increased to 0.377. Since the data show diversification under a common corporate enterprise, the diversification by entrepreneurs controlling a number of holding, key or parent companies in all probability would be still greater.(100) It was further found that the group of 24 highly diversified companies (index greater than 0.4), 17 companies with low diversification (index ranging between 0.2 to 0.399) and 19 companies with negligible diversification (index under 0.199) showed financial performance in terms of eight important financial ratios which varied directly with the degree of diversification.(101) It follows that the better off companies moved to other field (or, those companies which diversified, performed better), while the poorer ones remained in [illegible] textiles (or those which did not sufficiently diversify, did not do well). Thus, one can see that the textile industry experienced a flight of capital to other industries. Since this was caused, in past, by the combined effect produced by various public policies towards textiles, the State was faced with a limited range of choices for continued viable operation and expansion of the textile industry supplying a critical need of mass consumption.

Some other general measures taken by the government with respect to the corporate sector in order to make it an effective instrument of industrial development could also have had a bearing on the textile industry. For example, the managing agency system of running .

as a whole and of individual units - strengthened the tendency of capital to migrate to other branches of production. For small and medium entrepreneurs with experience of textiles and in the cotton regions of the country, powerlooms might have appealed as a more promising haven. As a results, further investments, and replacements in the older mills were blocked.

A crucial factor which rendered a large number of textile mills weak and incapable of viable operations was the trend towards diversification in which the better off mills participated in a fairly big way. This left the industry with a good number of mills with a weak financial base while the better off ones diverted resources to other, and generally unrelated, industries. We have a systematic estimate of the degree of diversification by sixty textile mills over the period 1976-1981.(99) Though the estimates refer to a later period than the one we are concerned with, it reflects the trends during earlier period as well because diversification entails investments which are a fairly long-term phenomena and could not come all of a sudden. The estimates for 1976 refer to achieved levels of diversification and hence give indication of what was happening in the immediately preceding period, which is the period of relevance for our study.

On the basis of the data of 60 mills, it is showed that at the 3 - digit level of classification, the average index of diversification measures in terms of sales in

Given the radical posture taken by the Congress Party after during 1969-71, its 1969 split, and the persure by some leftist political parties on whose support the Government managed parlimentary majority the option to assume direct responsibilities of the ailing mills had become attractive rather than remain an anathema.

The stand of the private interests controlling textile industry against merger of the weaker units with the stronger ones their stand in favour of state take-over of the non-viable mills as agin consolifation in private hands, gradually coincided with the Government's view after the failure of prevalent development and regulatory policies. Partly because "most of the machines in the NTC mills were of the pre-war vintage, though some mills could boast of machines as old as 1896"(103), the take-over of the mills was not found hurtful by the private interests especially in view of the amounts offered by way of compensation. Then, as the Industrial Licensing Policy Enquiry Committee said, "It is common knowledge that the (textile) industry is not as profitable as many of the new industries. The areas of pre-emption of capacity in textile is not in the production of yarn or fabrics but of man-made fibre - the progressing authority for which is DGTD"(104). As seen earlier, the positive discrimination policy towards the small sector had curbed further growth potential for the mills, which in any case was largly cornered by some select, more effecient mills whose productivity level was 150 percent higher than that of the worse ones.(105) Thus neither profits, and profitability,

Corporate enterprises was done away with in 1967, among other things, for bringing in more modern and dynamic management practices and ending the sustained continuation of control in the hands of original promoters. The cotton mill companies too saw a replacement of managing agents by board of directors. But nothing substantial has changed as a consequence of the move.[102]

While the marketing constraint was becoming a serious handicap for the textile industry as a whole, its impact on the mills was accentuated owing to differential excise duty structure. The introduction of the controlled cloth scheme in the situation dealt a further blow to the industry, without ironically benefitting the intended consumers.

In these circumstances there was hardly any scope for continuing the conventional policy mix which had worsened the textile tangle. However, the tasks on the textile front remained as complex as ever before. The production of cloth had to be increased in order to improve the standard of living of a large majority. The need for investment in rehabilitation and modernisation of the mills too persisted. Without rehabilitating a good many of the units neither it was possible to protect the job of a large number of workers, not was it possible to prevent a set back to many regions and industrial centres which were greatly dependent on textile mills. The export competitiveness had to be saved. In view of these persistant tasks a break from the conventional policy was becoming irresistible.

the radical phase) and was consistent with the interests and policy predilections of the interests generally perceived to the advesely affected by the nationalisation and are usually hostile to it.

That the recource to nationalisation was not the only option and certainly not the least cost method for dealing with the textile malaise has been implicit in the arguments which suggested that it would have been preferable to scrap these junk mills and start new mills to absorb the labour rendered unemployed.(107) After all, apart form the cost in terms of the 'amount' given to former owners (Rs.39 crores) there were further sizable costs, like the cost entailed by controlled cloth scheme, the cost of modernisation and the absorbed losses of the NTC mills subsequent to their take-over. Probably, relocation of the units and installation of totally new machinery would have been feasible if the closed and loss-making non-viable units were scrapped. One wonders if nationalisation and subsequent rehabilitation of the mills was in effect any different form their scrapping, except for a specific legal way of going about it and not necessarily discarding everything belonging to the existing mills. Re-location, in any case, does not necessarily follow scrapping of the old mills. Thus one wonders if scrapping the old mills could have been considered an alternative to nationalisation, except that it may be taken to imply advecacy of a specific policy course after nationalisation (like going in for totally new plant

nor existing stock of good machinery, and future growth prospects were there in the textiles to sustain the interest of the private controllers of sick mills in their heartly ruined properties.

After all, the entire textile industry was not nationalised (- -) despite some counter indications (106) and its relatively vibrant segmand was left in private hands disregarding liberal views that in order to sustain public sector as a Pinjarapole for the sick units both the worst and the best units of an industry should be natonalised so that the need for inter-industry cross subsidisation (entailed in recouping the losses of the sick units) is avoided. The fact that after vesting NTC with the charge of the sick mills it was given the major burden of the controlled cloth scheme relived the remaining private sector units of a dreaded source of losses. The nationalisation of the sick mills not only meant nationalisation of their losses but also of the burdens of the controlled cloth scheme. Thus nationalisation of textile mills seemed to serve the short-term objective of opening so many closed mills (the bunching of closures created special problem no likely to be faced when there are stray, isolated cases of closures) and to relieve immediate pressure of unemployment (of the western capitalist variety, that is unemployment of those who were employed at one stage as again chronic unemployment so wide-spread in the country) and fall in production of textile from mills for whose products consumer had a stronger liking than for handloom cloth. It also fitted in with the political exigencies of the day (i.e. ; a 'radical' image for the rulling party, I though it came towards the last days of

and machinery in place of repair, rehabilitation and partial replacement of the old vintage, badly maintained machinery).

Some interesting conculsions emerge form our analysis of the policy processes connected with the take-over of a large number of textile mills. As seen, a large number of adhoc measures were introduced to deal with various problems faced by the industry without evolving a long term policy. The problems were complex and the solution to each one of them did not necessarily work in the same direction. For example, there was the problem of stagnating demand made worse by the competition form synthetics and blended fabrics. Given relatively stronger preference for mill cloth, the controlled cloth scheme which permitted the prices of non-controlled cloths to be raised to make up for the losses on the former further prevented a pickup in demand. Exports could have been a feasible way out, provided technological change for modernisation was introduced. However, with excess capacity already on hand and embargo on expansion, it was not possible for the textile mills to increase their share of the total output of the textiles. Technological change would have led to increased output, but as a result of the policy of encouraging the decentralised sector it was discouraged. With further avenues of more profitable industries becoming available as a result of the broader policy of import-substituting industrialisation, the textile industry became a poor candidate for attracting fresh investment.

In order to deal with such a tangled situation, a comprehensive package of policies, thoroughly investigated

for the impact of any specific measure on other related aspects of the industry and other objectives of public policy, was required. However, this was not the manner in which a comprehensive and consistent textile policy was devised. The adhoc measures pulled in different directions and increase the complexity with which simplistic public policies could not successfully deal. We have seen as to how expansion of the decentralised sector in effect became expansion of the powerloom segment only. Thus neither the income and productivity levels of the handloom weavers could be improved nor much needed technological upgradation of the mill segment could come about with often stagnent and at times declining overall cloth output and rising prices, the growing needs of clothing the people could not be met, after all, 1964 peak level of per-capita availability could not be maintained in the subsequent years.

In such a situation the policy makers could not allow a large number of mill closures and failures to persist, particularly in view of its impact on cloth output, employment in the organised sector and unhelpful effects on various textile regions of the country. Nor was it possible to manage the situation with the help of the existing policy package of development and regulation of the industry by a combination of physical controls and indirect financial steering. Such a policy impasse was reached in the context of the political climate of the early 1970's in which a certain degree of radicalism was an essential instrument of political struggles for power and

hegemony among various sections of the ruling political party . Such a political and economic context facilitated the acceptance of nationalisation of a fairly big chunk of a premier consumption goods industry though again without chalking out a comprehensive and systematic textile policy as can be seen in the form of drift regarding newer cases of sickness and closures in the first half of 1980s.(108) As the demand for the take-over of the entire textile industry was ruled out by the Government and the terms and conditions of the transfer of the weakened mills were generally favourable to the erstwhile owners and more favourable than would have followed their liquidation(109) and since the take-over law contained no specifically pro-workers elements (expect, of course, the preservation of their employment), there was little misgiving about and resistance to the take-over among the capitalists in general and the private controllers of the takeover textile mills, in particular. Partly it was on account of such a combination of factors that the management take-over of 46 mills, described by some as "mass take-over"(110) was legislated with a view to eventual nationalisation rather than being brought about under the enabling provisions of IDR Act which were used for vesting 57 mills earlier in the National Textile Corporation. It was clearly more than a mere unemployment "relief measure" or "free medical service for sick industrial units",(111) not only in terms of long-term socio-economic significance of nationalisation but in terms of industrial regulation and control policies and future of textile industry in the country.

NOTES

(1) The Indian Cotton Mills Federation Hndbook of Statistics on Cotton Textile Industry, 1958-1983." The place held by the mill industry in the country's economy is best illustrated by the fact that it has a paid-up c capital of Rs.316 crores representating 6 percent of paid-up capital of all Joint stock Companies in the country aggregating to Rs.5345 crores. The value of . . entire industrial output in trade is Rs.26,000 India crores, of which the value of cotton mill manufactours is Rs.2700 crores or 10.4 percent of the value added by manufacture amounting to Rs.6490 crores by all industries, the share of cotton textiles is Rs.823 crores or 12.7 percent Kulkarni, V.B., History of the Indian Cotton Textile Industry. The Mill Owner's Association, Bombay, 1979. P. 203.

(2) Kulkarni, V.B., op.cit., P. 206.

(3) Idem.

(4) A Note on National Textile Corporation - suggestions for Improvement prepared by the NTC Ltd., January, 1980. P.I.

(5) Kulkarni, V.B. Op. cit., P. 207.

(6) A Note on National Textile Corporation op.cit., P.1.

(7) Ibid, pp. 1-2.

(8) Kulkarni, op.cit, P.207. emphasis added.

(9) The Act, as given in Acts of Parliament, 1974.

(10) The Act, op.cit, pp.

(11) Kulkarni, op.cit., P.207.

(12) Ibid, P.208. "In the nationalised sick textile mills, major part of the plant and equipment are very old and some of them obsolete. The upkeep of these machines has been more or less neglected, with the result that the cost of production in NTC mills has been higher, the mills are constrained to use richer cotton for the same (sic) quality of yarn/cloth; plant and machinery are giving low productivity; the mills are carrying excess labout to the extent of 10 percent and the quality of cloth produced falls short as compared to similar products manufactured by standard mills". A note op.cit., P.4.

(13) Idem.

(14) Sastry, D.U., The Cotton Mill Industry in India, OUP, Delhi, 1984, pp. 20 and 121.

(15) Prior to the 1972 management take-over Act, NTC Controlled 10 percent of the total textile production in the country under the mills brought under NTC management. Lok Sabha Debates, Fifth Series, Vol. 21, 11 to 22 December 1972. Colmns. 287 - 292.

(16) Ibid, Speech by Indrajit Gupta, Colmns. 279-289.

(17) Ibid., Speech by Dinen Bhattacharya: Colmns. 268 - 270. "As for the final take-over bill of 1974, it has been pointed out that almost all the members were unanimously opposed to the provision that the worker's dues prior to 1974 were not enforceable against the government or the NTC. Bowing to such opposition, the givernment agreed to accord somewhat higher priority to workers' claims out of compensation amount. See Madan, M.L., Congress Party and Social Change, Delhi, B.R. Publishing Corpn., 1984, pp. 164 - 166.

(18) Ibid. Speach by the Ministry of Foreign Trade, Sh. L.N. Mishra. Colmn. 253. He claimed that take-over of 57 mills saved the job for about a lakh of workers. Colmn. 254 - 255. The criticism of the claim was given the Eastern Economist, November 17, 1972; pp.

(19) Madhu Limaye "Make the Mills cater to the Masses", "Janta December 8, 1974, pp. 3-4. Based on speack in Loksabha.

(20) Idem.

(21) Ibid. Colms. 285-286.

(22) Quoted in Kulkarni, V.B., op.cit. p. 166. emphasis added.

(23) GOI, Report of the Working Party for the Cotton Textile Industry, New Delhi, 1952. (Mudaliar Committee).

(24) Podar, R.M., The Indian Cotton Mill Industry: Nation's Premier Enterprise, Bombay, Podar Trading Co., 1959. pp.8-10.

(25) The Indian Cotton Mills Federation, A Survey of Indian Cotton Mill Industry, Bombay, 1960, p.4.

(26) Kanungo Committee Report quoted in Podar, R.S., op.cit., p.11.

(27) Handbook of statistics on Cotton Textile Industry, op.cit., p. 29. and Kulkarni, op.cit., P. 179.

(28) Mudaliar Committee Report, op.cit., Chapter III.

(29) Mudaliar Committee, op.cit., Chapter III. The percentage of dividends to gross profits during 1946, 1947, 1948 and 1959 was 23.73, 37.71, 26.26 and 38.99 percent respectively. Gross profits for the corresponding year was about Rs.240 crores, Rs.167, Rs. 285 crores and Rs.139 crores. Ibid.

(30) Ibid. Chapter VIII.

(31) Industrial Finance Corporation quoted by Podar, R.M., op.cit, P.10. As Kulkarni, op.cit., P.204 puts it, from the last war, "Its productive equipment was worked to death."

(32) Idem.

(33) Mudaliar Report. op.cit., Chapter VIII.

(34) Idem.

(35) Handbook of Statistics, op.cit, Table 2, p.18.

(36) Ibid.

(37) Op.cit. pp. 11-12.

(38) Kulkarni, op.cit., p.202.

(39) The Bombay plan envisaged as considerable expansion of the textile industry and assumed that per-capita consumption of cloth would go up to 30 yards per annum., Ibid. p.157.

(40) Kulkarni, V.B., op.cit. P.192 and p.197 . Sastry, op.cit., (P. 107) estimated the gross price elasticity of demand for mill cloth with respect to food prices to be minus 0.75. Also pp. 104-106.

(41) Kulkarni, op.cit.,

(42) Sastry, op.cit, p.104.

(43) Ibid. p.204

(44) National Industrial Development Corporation, Report of the Working Group for the Cotton Textile Industry, Bombay, 1960. pp.99-101.

(45) Kulkarni, op.cit., p. 282.

(46) Quoted in Ibid. pp. 282-183.

(47) Limaye, M., op.cit, pp. 3-4.

(48) Govt. of Gujarat, Report of the Textile Reorganisation Committee. (Ahmedabad, 1968) P. 25. (Manubhai Shah Committee).

(49) Mohota, R.D., Textile Industry and Modernisation, Bombay, Current Book House, 1976. pp. 49-50.

(50) Idem

(51) See Table 3 showing cloth production.

(52) Ojha, P.R., Corporate Dividend Policy in Indian Cotton Textile Industry, Allahabad, Kitab Mahal, 1978, Chap.2, pp. 26-27.

(53) op.cit p.205 (emphasis added)

(54) Report of the Textile Re-organisation Committee, op.cit. p.25.

(55) Kulkarni op.cit., p.206 and pp.223 - 226.

(56) "The better run mills go on adopting technological changes and improving their products. They are progressing " Report of the Textile Re-organisation Committee, op.cit., Para 50, p.25. Also Maharashtra Cotton Textile Committee, quoted in Kulkarni, op.cit., p. 209.

(57) Podar, R.A., op.cit. pp. 7-8, Kulkarni, V.B., op.cit. Chapters 4 and 5.

(58) GOI, Report of the Study Team on the Textile Commissioner's Organisation, New Delhi, 1966. Sections 2.1 to 2.4.

(59) GOI, The Handbook of Textile Control orders, corrected up to June 1971. The Industrual Development and Regulation Act, 1951, pp. 52-61.

(60) Report of the Study Team on Textile Commissioner's Organisation, op.cit., Section 2.5. It says that an industrial adviser was appointed and "uneconomic units facing closed down for one reason or another or were facing closure had to be aided both technically

and financially to come back into activity. The growth of indigenous textile machinery manufacturing industry had to be fostered under the plan. Financial and technical assessments of various units of the industry had to undertaken on a continuing basis". This led to the creation of a survey branch./Section 2.5. / Ibid

(61) Ibid. Section 2.7

(62) Podar, R.A., op.cit., P.10.

(63) Some of the better known of these periodic reviews were made by the following:-

1. Working party for Cotton Textile Industry, 1952.

2. Textile Enquiry Committee, 1954. (Kanungo Committee).

3. Textile Enquiry Committee, 1958 (Joshi Committee).

4. Working Group for Cotton Textile Industry appointed by National Industrial Development Corporation, 1960.

5. The Powerloom Enquiry Committee, 1963 (Ashok Metha Committee).

6. Textile Re-organisation Committee, 1968, (Government of Gujarat).

7. Cotton Textile Committee, 1967 (Government of Maharashtra).

(64) The three studies by Kulkarni, V.B., op.cit., Podar, R.S. op.cit and Mohota, R.D., op.cit, are full of accounts of the activities of various associations of the millowners' and their memorandam/and official responses to them. The book by Mohota gives an account of various mill Associations in Appendix I (op.cit., pp.198-201). It lists the following:- The Indian Cotton Mills Federation, The Millowners' Association, Bombay, The Ahmedabad Millowners' Association, The South Indian Millowners' Association , Coimbatore, The Northern India Textile Mills Association, Delhi and Bengal Millowners' Association, Calcutta.

/ Mill-owners

(65) The Industrial Policy Resolution, 30th April, 1956, as reproduced in the Second Five Year Plan, pp. 43-50.

(66) The First Five Year Plan, p.317.

(67) Ibid. pp. 317-318.

(68) Idem.

(69) Idem.

(70) Ibid. p.425.

(71) The Second Five Year Plan, p.30.

The Third Five Year Plan, pp .42-43 "The production of cloth by the Handloom, powerloom and Khadi industries is expected to increase from 2350 million yards in 1960-61 to 3500 million yeards in 1965-66." "pp. 67-68. Recognising that the handloom industry provides employment to nearly 3 million weavers (p.285) the Fourth Plan spoke of continuing "the existing reservations and their modification in accordance with requirements and the need to strengthen various positive supporting measures in view of the fact that " a large number of Industries is proposed to be delicensed during the Fourth Plan period". pp. 287-288.

(72) Sastry, op.cit., pp. 114-115. Kulkarni, op.cit., pp.177 and pp.186-187. Mohota, RD, op.cit., pp.138-148.

(73) Kulkarni, op.cit., pp. 186-189.

(74) Mohota, op.cit., p.162.

(75) Ibid. pp. 160-161.

(76) Idem.

(77) See Kulkarni op.cit., pp. 183-184.

(78) For detailed account of the cotton problem see Kulkarni, V.B., op.cit., chapter II, Mohota R.D. op.cit., chapter V.A recent study says "shortage and price instability of raw-materials is perhaps the greatestsingle factor in mills coming to grief" Sreenivasan K., "India's Textile Industry (A Socio-Economic Analysis), Coimbatore, South India Textile Research Association, 1984. p.47.

(79) Sastry, op.cit, PP. 117-118.

(80) Kulkarni, op.cit., p.251.

(81) Madan N.L. , Congress party and social change, Delhi, B.R. publishing Corporation 1984, p.160, quoting Economic Times, March 20, 1979. op.cit., p.13 and p.15 and p. 89.

(82) Report of the working Group, 1960, op.cit., p.15.

(83) Kulkarni op.cit., p.288. The excise collection from cotton mill industry during 1972-73 amounted to Rs.120 crores.

(84) Idem.

(85) Ibid. p.287.

(86) Ibid. p. 294

(87) Approach paper of the National Seminar on clothing the millions : Integrated cotton and Textile policies (organised by National Institute of Community Development and Indian Institute of Economics, Hyderabad, September, 1976) quoted in Kulkarni op.cit., p. 203.

(88) Sastry, op.cit., p. 107.

(89) Sastry op.cit., pp. 104-107.

(90) The description of the controlled cloth scheme is based on Kulkarni, op.cit., pp. 209-213 and Sastry, op.cit., pp. 121-122.

(91) Sastry, op.cit., p.121.

(92) See, Kulkarni, op.cit. p. 185.

(93) See, Mohota R.D., op.cit., chapter IX on the Decentralised Sector particularly the section on malpractices. Important among the mal practices are unauthorised power looms, manufacture of unauthorised sorts and types of cloth and unauthorised claims on handlooms subsidy. pp. 163-164. One has also heard of artifically separated firms under common ownership and management in order to avail of tax concesions. Also see, Report of the Mill owners' Association Bombay for the year 1960. Pp. 32-42, briefly quoted in Kulkarni op.cit, p. 191.

(94) *Ibid*. pp. 194-195.

(95) Ministry of Industry, Government of India, *Report of the Powerloom Enquiry Committee*, May 1964, New Delhi, p.39.

(96) Quoted by Kulkarni, *op.cit*., p. 168.

(97) The / Large Industrial House should include those business concerns over which a common authority holds sway. These business entites, though separate for legal or taxation purposes, function in unison as parts of a common organisation under the overall guidance, direction and support of a closely knit group of persons. While the day to day affairs of the concerns are independently carried on . . . the ultimate source regulating overall policies can be traced to a common authority. India, Dept. of Industrual Development Ministry of Industrial Devt., Internal Trade & Co. Affairs, *Report of the Industrual Licensing Policy Enquiry Committee*, (Delhi. Manager of Publications, 1969), *Main Report*, p.12 . Given this definition the Report gave a list of such large industrial sources whose, assets were not less than Rs. 5 crores.

(98) Ranade Nageshwar " Diversification and financial performance in the textile industry in India. An M. Phil descreation of the Punjab School of Economic and Business, Gurunanak Dev University, Amritsar, 1984.

(99) *Ibid*. Chapter V.

(100) *Ibid* p. 66.

(101) *Ibid* chapter VI.

(102) Kulkarni, *op.cit* ," He is a boldman indeed who can claim that there has been a notable managerial reform in the country following this action". (Abolition of managing agency system). p. 322. Sinha, S.L.N., goes to the extent of maintaining that "the Managing Agency System has been abolished in the country, *de-jure*, yes, but in practice the system is very much alive" *Sickness of Industrial Units: some observations*" Madras, Institute of Financial Management and Research, 1977, p.16.

(103) Sreenivasan K., India's Textile Industry, A Socio-Economic Analysis, Coimbatore, South India Textile Research Association 1984 P.101.

(104) GOI, Ministry of Industrial Development, Internal Trade and Company Affairs, Report of Industrial Licensing Policy Enquiry Committee, July, 1969, New Delhi, p.90.

(105) Sreenivasan K., op.cit.,p.59.

(106) According to P.A. Saminathan M.P., "These could be only one reason for not taking (up) the step of nationalising the entire textile trade and that is many of these mill magnates are members of the ruling congress party and they happen to have a major say in the affairs of the ruling party". Loksabha Debates, fifth series, Vol. 21, 11-22 Dec. 1972. Colmn 299-300. (*)

(107) Gadgil, Gangadhar, "Indian Textile Industry: A profile", Commerce, December 29, 1973 Vol. 127, No. 3269. p.23. Also Loksabha Debates, op.cit., Shri Prabodh Chandra M.P. suggested that instead of taking over these sick mills the Government should start new mills, colmns 295-198.

(108) Shri Indrajit Gupta M.P. pointed out that sickness on the basis of which textile mills were taken-over has not been defined clearly and many mills which should have been covered by the bill have been overlooked. He gave specific instances of the mills (Like Laxmirattan Cotton mills, Kanpur and Seksaria Mills, Bombay) which have been left out of the perview of take-over. Ibid colmns. 279-280.

For the crisis of textile industry and the cul-de-sac facing textile policy in 1984, see "Textiles: No. Alternate to closure". The Herald Review, September 2, 1984. pp. 40-44.

(*) The Prime Minister is reported to have described the management take-over of textile mills as a step towards nationalisation of the cotton textile industry. Economic and Political Weekly (E.P.W.) December 2, 1972. p.

(109) As was pointed out by the Chairman, Maharashtra State Textile Corporation (a subsidiary of NTC) that if the mills had gone into liquidation, the shareholders would have been paid probably Rupee one for every Rs.10 share, though under the new dispensation, i.e., take-over arrangements, they might get Rs.5, indicating substantial gain in " Textile Industry", Commerce, November 4, 1972.

(110) "Take-over of Textile Mills", Capital, November 16, 1972.. P. 808.

(111) EPW, op. cit., P. 2353

NATIONALISATION OF SHIPPING AND SHIP-BUILDING COMPANIES.

- Kamal Nayan Kabra -

Shipping and ship-building is one of those areas in which the intended policy of mixed-ownership and public sector, based largely on fresh public investment and private sector propped up by provision of public resources, had in practice to be changed into that of going in for unit-by-unit take-over of a good many companies. Section I deals with the manner in which these companies were brought into the precincts of the public sector and the over all and relative size of the taken-over shipping and ship-building industry. Section II is devoted to an analysis of the evolution of public policy towards the industry. This attempts to shows some of the major factors which necessitated the take-over of these companies. The poliicy of supporting the growth of private shipping by liberal financial assistance and its efficacy are discussed. One of the most important manifestations of this policy was seen in the formation of Jayanti Shipping Company which made a large addition to Indian shipping tonnage. Section III is devoted to the Jayanti story, trying to show how nationalisation became an inescapable choice. Since the Jayanti story is so unique and spectacular the chapter is concluded with some broader implications which appear to flow from the Jayanti experience.

I

Take-over of shipping and shipbuilding companies (eight in all) took place between 1952 and 1973. Four of these companies were ship-builders, repairers and general engineering firms, three companies were managed by foreign concerns. All these four take-overs were affected without resorting to legislation, through share-acquisition (4 cases and one was a negotiated take-over at a value arrived at by an experts. In one case, a political development (viz. liberation of Goa from the Portugese rule) led to the acquisition of a shipyard. Takeover of two companies (Mazagon Dock & Garden Reach Workshop) was related to defence needs and their management was vested in the Defence Ministry. In two cases, laws were enacted for take-over. (See, the Profile of take-over of Shipping and Ship-building companies at the end of the Chapter).

It can be seen from the Profile that two ocean-going shipping companies, one coastal passenger service and one island navigation company were brought under public control. Moghul lines was acquired and made a subsidiary of the Western Shipping Corporation in 1980 [1]. In 1966, the Jayanti Shipping Co. Ltd was brought under management control of the Shipping Corporation of India under the provisions of Jayanti Shipping Co. (Taking over of Management) Act, 1966.[2] This was done following complaints against the management of the company [3]. As a result of management take-over, there came about a considerable improvement in the working of the company leading to wiping out of accumulated losses

of the order of 2. 59 crores upto 10 June 1966, and also repayment of loans aggregating to Rs. 7.41 crores.[4] After rehabilitation, the company was acquired by an ordinance which was replaced by an Act in December 1971.[5] This became essential in view of the fact that Dr. Dharma Teja and Mr. M.M. Kulukundis were involved in many law suits with the government, including criminal ones on charge of breach of trusts, forgery and cheating. Hence, the Government considered it necessary not to leave the ownership of the company in the hands of these two persons.[6]

Jayanti Shipping Company was the largest shipping company acquired by the government with tonnage of 196000 GRT. Since there were some public sector shipping companies set up earlier, which had added sizeable tonnage, the take-over of Jayanti Shipping led to government control over about 50 percent of the total national operative tonnage of 25 lakhs with 95 ships (of which 79 belonged to the Shipping Corporation of India and 16 to Jayanti).[7] It is clear that take-over accounted for very small part of the tonnage compared to the share of fresh investment-bred public sector shipping.

River Steam Navigation Company, providing inter-state river navigation in the Eastern States, had to be acquired because of political complications with East Pakistan (now Bangladesh) leading to impounding in February 1965 of vessels and closure of routes and consequent accumulation of huge losses by the company under the control of the U.K. based Inchcape group .[8]

A coastal shipping service, controlled by Chowgule Steamships Ltd., called the Konkan Passenger Ships, was taken-over by an ordinance followed by an Act, in 1973, because the company did not resume this service after monsoon in September, 1973 and caused considerable hardship to the passenger in the Konkan region. It involved two ships and related shore assets and a compensation of Rs. 90 lakhs was paid for it.[9] The company running the service was not acquired.

Thus one finds that four foreign and four Indian companies, including four shipping companies (internal, coastal and international) were affected by nationalisation in this branch of the economy. In almost all the cases, nationalisation had to be resorted to in the absence of any viable or effective option. Share acquisition was the most popular method. Except for three cases, we could not obtain information on the price at which shares were purchased.

Nationalisation of shipping and ship-building companies came about at various points of time and on the basis of specific case-to-case related factors. Overall shipping policy did not seem to have visualised acquisition of private companies or assets. It was as a result of specific problems encountered that these companies were brought under public ownership and control. In the following section we examine the policy and developments regarding shipping during our period of study in order to examine whether these aspects influenced nationalisation of shipping and ship-building companies.

II

With Independence, the urgency to build a national shipping service and shipbuilding industry was realised by the government as our shipping tonnage at that time was only about 2 lakh GRT in all.[10] A sub-committee of the Reconstruction Policy Committee set up in 1945 by the government in order to evolve post-war shipping policy emphasised that the thrust of public policy should be increasing indigenisation of shipping.[11] The shipping policy committee (1947) suggested that India should move towards increasing the share of Indian shipping during the next 5 to 7 years to 100 percent of purely coastal trade, 75 percent of trade with Burmah, Sri Lanka and other adjacent countries, 50 percent of India's long distance foreign trade and 30 percent of the trade formally carried in Axis Vesseles in the orient. It was estimated that the realisation of the above targets would require about 2 million gross tonnes of shipping. As a first step, the coastal trade of the country was reserved in 1960 for Indian Vessels in response to public demand for the past 25 years.[13]

In order to bring about a rapid development of the shipping service, it was thought essential that the government would provide multifacted assistance to Indian shippers. The Industrial Policy Statement of 1948 reserved shipbuilding as an exclusive responsibility of the State while sea transport was listed under industries brought under central regulation and control.[14] The 1956 Industrial Policy Resoultion included shipbuilding in Schedule A, implying that new

units will generally be started in the public sector. However, it was not listed as a state monopoly. This Resolution listed sea-transport in schedule B i.e., for an increasing role of the State in setting up new units.[15] It means nationalisation of existing companies operating shipping was not put on the agenda of public policy. However, the State did not straightway go in for setting up either new Shipping companies or shipbuilding units. The Vizag shipyard was brought under public contro with private participation largely because no altenative seemed workable. Initially the thrust of public policy seemed to be to leave the development of shipping to the private sector and confine the role of the State to provision of assistance to the private sector in order to increase the share of Indian shipping in India's external and coastal trade.

The First Five Year Plan aimed at increasing the gross registered tonnage to 6 lakhs by theend of the Plan. It was anticipated that in view of the importance of carrying foodgrains, some assistance may come from the World Bank. The expansion in capacity was linked to the development of the Vishakapatnam Shipyard (taken-over in 1952) with a view to make full use of its capacity.[16]

The government made a provision of Rs. 4 crores to be given as loans for increasing tonnage. It was expected that Rs. 2 crores may be raised by the shipping companies.[17] In view of the keenly competitive nature of sea-transport, the planners accepted the policy of charging a lower differential rate of interest on public loans to

private shippers for buying ships for overseas routes, even though it may involve an element of subsidy.[18] Even in the sale of ships from Vizag for coastal shipping, it was thought proper to change a reasonable price from the shipping companies and to give subsidy to theshipbuilders as well.[19] Some fiscal concessions, including access to IFC, were also contemplated.[20] In April 1959, National Shipping Board was set up to advice the Government on shipping related matters.[21]

A preferential treatment to sea-transport was considered essential in view of the highly competitive nature of shipping services which are also susceptible to wide fluctuations in their fortunes. These factors along with the relatively stronger position of well-established foreign shipping companies and the huge requirement of finance for acquiring tonnage, made the private companies shy of investing in shipping. In fact, the development of Indian shipping was fairly slow inspite of government financial assistance. By 1960-61 India's shipping tonnage went upto 8.58 lakh (GRT) only, which would carry only 9 percent of India's foreign trade.[22] It was in view of such factors that it became essential for the government to decide to go in for direct participation in establishment of shipping companies for acquiring additional tonnage.[23]

Shipping is a highly capital intensive economic activity. In the absence of shipbuilding capacities in the Indian economy, any extension of indigenous shipping necessitated a great deal of foreign exchange for acquiring ships, at times forcing the purchase of

second hand vessels.[24] During the British period a little beginning has been made towards setting up of some ship-repairing facilities, particularly through the establishment of Garden Reach Workshop as for back as 1884. This was converted into Garden Reach Shipbuilders and Engineers in 1934 under the joint management of British India Steam Navigation Company and the Peninsular and Oriental Steam Navigation Company of the U.K.[25] Another ship-repairer and builder Mazagon Dock Ltd., under Mackinnion Mackenzie & Co. was also incorporated during 1934. It had six shipbuilding berths and two dry-docks, which could built ships of 15,000 deadweight. This company too had its beginning long age in 1774.[26]

Such hatting steps could not produce a national shipping service and shipbuilding industry. Hence the government decided to go beyond provision of concessional finance and fiscal incentives. Reservation of coastal shipping exclusively for the Indian companies went some distance in giving a foothold to the Indian shippers. However, India's near trade was not very significant to sustain a large tonnage. Thus through direct participation in shipping, an ear of 'mixed ownership' was inaugurated with the setting up of the Eastern Shipping Corporation in 1950 jointly with Scindia Steam Navigation Company Ltd.[27] (a company in which some of the prominent industrialists of Western India like Khatau, Morarjee, Kilachand, Lalhhai etc. had interests).[28] Still, these companies were joint sector companies and most of the additional shipping tonnage was based on fresh public investment rather than

acquisition of privately-held tonnage. The acquisition in 1971 of Jayanti Shipping Company was the only step which transferred private ships into public ownership and control. The case of Moghul Lines was of rather marginal size. Konkan coastal shipping had to be acquired, as seen earlier, because the private operators had failed to continue the operations.

Toward the beginning of 1960, India was barely able, as seen above, to provide carrying services to 9 percent of its overseas trade. Despite liberal financial and fiscal incentives, the indigenous shipping targets of achieving indigenisation of a high order in 5 to 7 years fixed by the Shipping Policy Committee (1947) were far from being realised. Even the policy of providing 90 percent of the finance needed for acquiring additional tonnage by the Shipping Development Fund Committee (SDFC) did not evoke response on the requisite scale. As a result, an annual outgo of Rs. 70 to 80 crores was taking place on account of use of ships flying foreign flags.[30]

III

At this stage, two persons, Dr. Dharma Teja and Dr. Kulkundis floated a company in 1961 called Jayanti Shipping Company, initially with a paid up capital of Rs. 250.[31] Initially it was incorporated for Rs. 2 lakhs and in 1962, the amount was raised to Rs. 1.5 crores. Dr. Teja & Dr. Kulkundis held 75 percent and 23 percent of the shares respectively. The company applied for loans

from the Shipping Development Fund Committee under the scheme of granting loans to the tune of 90 percent of the price of the ship. The company added a fresh dimension by proposing that "nothing was to be paid to the company or the ship manufacturers before the delivery of the ship." 10 percent of the price of the ship was to be paid on the delivery of the ship and the rest was to be paid in instalments. These terms were officially considered superior to the ones offered by other companies which came forward to take loans from the SDFC. Though at the time the loan was sanctioned, the company hardly had a capital base of its own worth the name, but the loan was granted subject to the condition that the first instalment of the loan would be actually disbursed when the paid-up capital of the company reaches the level of Rs. 1.5 crores and thereafter it had to raise its share capital by Rs. 25 lakhs for every Rs. 100 lakhs of loan to be disbursed until the share capital was raised to Rs. 5 crores for getting the total sanctioned loan of Rs. 20.25 crores.

It was stated by the Minister of Shipping and Transport that Dr. Teja and his partner contributed seven liberty ships in kind to make up for the shortfall in paid up capital. They opened a collateral account of 2.8 million dollars with Nova Scotia Bank of New York, out of which the price at the rate of 0.4 million for each liberty ship was stated to have been paid towards paid-up capital. The two 'partners' also contributed £ 1 million in cash.

It goes without saying that this is a rare and unusual case of capital contribution in kind by the promoters. True, the books of the company showed the paid-up capital to be Rs. 2.82 crores

by November 1962, but it is clear that this move while met the requirements of the company law and loan disbursement formally but, in effect, was not capable of providing liquid finance capital to the company as appears to be the purpose of paid-up capital.

It was pointed out in the Rajya Sabha debate that the letter of the Government granting credit was used by Dr. Teja to raise large sums from Japanese and other international bankers. An M.P. who was quite opposed to Jayanti Shipping Co. (JSC) and was stated by other M.P.s to be close to a rival shipping company, claimed that the manner in which Dr. Teja showed others' capital as his was shown by him with the help of photostat copies to the then Home Minister, Shri G.L. Nanda. Theseletters by the banks to Dr. Teja said that "we have passed these receipts to you at your request but we do not own having received any money from you." Thus, it appears that from the very beginning spurious deeds were committed.

The subsequent behaviour of Dr. Teja and his co-director made the government to come to the defensive position that "the scheme should be distinguished from the individuals." Apparently, the plea seems to be that the schemes submitted by Dr. Teja (described by an M.P. as "this arch swindler of the century") was so attractive that the government did not take the trouble of satisfying themselves about the antecedents of the persons concerned. As an industrialist M.P., Shri Babubhai Chiani wondered, " I do not know what happened to the Government officers and the government

of the day that they did not take care to find out the credentials of the persons to whom they were giving these big loans."

The Parliamentary debates refer to many factors which could have played a part in the grant of these loans to JSC. Some of these are highly partisan and personalised, based on the role, failings and weaknesses of certain individuals. One such tendencious approach speaks of a 'Nehru sector' to which JSC belongs. Such views, apart from being based on personal factors and current narrow political considerations, are based on a greatly personalities centred views of political and administrative decision-making. In any case, enough evidence on these interpretations are not available. A similar factor which was supposed to have played a role in the process of the formation, growth, decline and nationalisation of JSC was the factor of Smt. Dharma Teja, who was described by an influential M.P. as one whose very sight "set many a ship sailing on the high seas of politics of that type." It was regretted by an M.P. that the name of a dignified wife had been dragged into this mire. Others alleged that Dr. Teja appeared with his wife to capitative people of influence and the then shipping minister was told by an M.P., as the latter himself disclosed, that it is true that a thing of beauty is a joy for ever, but that should not apply in the case of ministers.

It was also alleged that Dr. Teja gave liberal hospitality to influential people on their tours abroad. An M.P. was appointed for liasion work on a hafty salary and his son was also employed an very attractive terms. Even in the appointment of directors, people

with influence and good connections like one Gautam Sahgal who was the son-in-law of Mrs. Vijaya Laxmi Pandit and was working with a multinational firm were chosen. General Kaul was also appointed, it was stated, on some recommendation from some high ups. The general feeling of non-responsive investment behaviour in shipping and relatively attractive terms of JSC's proposal (no advance payment, one-tenth payment on delivery & the payment of the balance in instalments) also appeared to have influenced the decision by the government to grant this big loan to a then "unknown and ordinary Dr. Dharma Teja."

IV

Let us try to devote some attention to the general issues arising from the take-over of JSC.

The main factor underlying this development appears to be the policy of giving liberal financial assistance to private sector for taking up shipping ventures. Given the fact that very few Indian companies were operating in the area of shipping, either the whole assistance was to be given to a handful of those who have already demonstrated good capabilities of operating large sized shipping operations or new horses were to be backed. Even during the period 1966 (when the management of JSC was taken-over)-1971, when the public sector Shipping Corporation of India, has demonstrated its managerial and technical capabilities, the policy of supporting privately controlled and public-financed shipping companies continued. <u>It was largely this policy and its gross abuse</u>

and lax administration which caused the JSC debacle. The approach of the Government to build-up privately- controlled shipping services in the face of demonstrated strength of public sector shipping, with public funds and to ignore the social, economic and political consequence of this approach are illustrated by the manner in which the Minister of State for Shipping expressed his regrets over the behaviour of Dr. Teja and Mr. Kulukundis. The Minister said that this was the case of a person who wanted to kill the hen that laid the golden egg. If Dr. Teja were patient, the Minister went on to suggest, he would perhaps have been "one of the biggest shippers in our country." Thus the facts that slowly and steadily . . and also legally one is permitted to become one of the biggest shippers of the country who fetches a constant supply of golden eggs on the basis of public funds were inherent in the public policy on shipping. That someone becomes impatient, resorts to illegal acts to milk the company dry and dead were also to a certain extent, inherent because the government admitted that a good scheme from persons of unknown reputation was accepted. As an industrialist M.P. admitted, "this is the saddest incident which has taken place during the last several years so far as the private sector business is concerned". In fact, even when the hen was killed, a virtue was seen in having helped the JSC Ltd as it added 296000 GRT to our shipping !

How JSC was mismanaged has been brought out by the Enquiry Committee which looked into its affairs. It was quoted from the official statement of reasons explaining the circumstances in which

JSC was taken-over, "The new management (after management take-over-KMK) of the JSC Ltd., found during investigation into the past affairs and financial dealings of the company that both Dr. Dharma Teja and Dr. M.M. Kulkundis had in collusion misappropriated large amounts of funds belonging to the JSC Ltd." The amount recoverable from Teja was Rs. 1.25 crores and claims worth Rs. 2.78 crores were pending before the courts .

The JSC Enquiry Committee report was quoted to show that the Manageing Director of the Company, Shri Narayana, nephew of Dr. Teja complained that "neither he nor the Board was kept informed of the various financial arrangements which Dr. Teja was making from time to time from his far-off head quarters in the South of France."

Over and above "acts of nolfeasance and misfeasance ", the company according to the report of the Board of Control was left in a "terrible mess".

It had taken large private fixed deposits which could not be repaid on maturity. As the Minister piloting the take-over bill said, "there was no management, no accounting and no operational discipline worth the name before it was taken-over." As a result of many complaints against the company, an enquiry was ordered, and to begin with, the management of the company was taken-over and ultimately the JSC was nationalised.

The failure of the policy of foisting a private sector on the shipping scene by public support and money, dramatised by the JSC episode, led to its nationalisation, though the same policy of

helping the growth of private shipping was continued. It is apparent that the JSC case was treated as a case of individual aberration.

Even at the level of an individual case, the criminality was not punished at an economic and financial level. It was a fit case for penal nationalisation where, in order to satisfy the f formal needs of law, a token nominal compensation (say of one rupee) would have been amply justified as both civil and criminal cases were instituted against Dr. Teja and a huge sum of expenditure was incurred in order to have him extardited following his fleeing away from the country as his passport was not impounded. Many M.P.s suggested such a course, particularly in the light of the 25th amendment to the constitution.

But the government chose not to be vidicative towards Dr. Teja and the minister piloting the Bill went on to say that "if anything is due to Dr. Teja , we shouldnot take up a position that we will not pay it". For this the government was complemented by an industrialist M.P., who said that the government has done wisely that they will be giving the shareholders nearly Rs. 4½ crores in in ten instalments. It may be recollected that this compensation was to be paid for a paid-up capital (probably including some liberty ships) of Rs. 2.88 crores. As another M.P. pointed out that by this compensation provision the government could satisfy those who were extremely apprehensive that following the 25th amendment to the constitution, the government would expropriate private properties without compensation. By this

"magnificent example" as N.K.P. Salve, M.P. put it, it was demonstrated that no such designs existed. Even those who defrauded the nation, were spared "vindic tiveness". The JSC affair which was considered "a moment of misplead faith in an individual by government" was settled by making liberal compensation available.

An argument was given that since the shares of Dr. Teja and Dr. Kulkundis were attached by the Bombay High Court and some decrees had already been obtained while others civil suits were pending, the compensation will come back to the company or government. Since the money would flow back to the government, it was suggested that the shipping ministry has a vested interest in making the compensation provision! It is apparent that in this process, the liabilities of Dr. Teja against the government would be cleared while Dr. Teja would pay nothing, nor the moneys allegedly stolen by him (even according to the government) would be recovered from him. Then, the principle that those who defraud public money would be financially penalised . . . was not accepted.

On the contrary, the private sector was assured through rich liberal compensation that neither criminal acts nor the 25th Amendment enabling very low-cost nationalisation would make the government take expropriatory steps. In this sense, the significance of the manner of take-over of the ISC went beyond the shipping sector. In those days of apparent and frothy radicalism, such concrete gestures to private capital had their silent effectiveness for not giving rise to misapprehensions in the minds of private capitalists.

In sum, nationalisation of shipping and ship building units came about without a general decision to take-over either any specific part of these activities or an explicit enunciation of a set of circumstances in which the state would not leave those units in private hands. All these take-overs were based on adhoc decisions concerning individual companies. In some cases, it was the need of defence which prompted take-over. In other cases, it was either their non-viability or malfunctioning or cloasure or , as in the case of Jayanti Shipping Company, a high order of fraud and mis-management, leading almost to bankruptcy, which forced the State to enter the field.

Both in case of share acquisition and nationalisation through an act of Parliament, the former owners received a good value for the shipping properties they lost control over. So much so that even in the case of JSC the former management which had committed criminal breach of trust and misappropriation, a 'non-vindic tive', liberal compensation was granted. To an extent it could have been so owing to the desire on the part of the government to show that they were not using the rights acquired under the 25th amendment to the Constitution to take expropriatory measures.

The method of giving huge financial assistance to private sector in order to encourage investment involves a great deal of discreation. Apart from involving failure of judgement, such a policy may lead to improprieties like favouritism which defeat the objectives of the policy. This is a serious limitation of such a method of encouraging investments. Building up of private industries

and other productive assets on the basis of public funds, as witnessed in the case of shipping gives rise to a pattern of growth which is analytically not dissimilar to what Sachs had called the Japanese pattern of public sector[32] according to which public enterprises are set up in difficult and important areas and once they get going they are sold at concessional terms to private managements. In the case of shipping, it was a stronger case of the so-called Japanese model because the ships were acquired almost entirely with public resource and control from the beginning was in private hands.

Such a policy is liable to grave misuse, favouritism and violation of objective administrative criteria under extraneous considerations. The case of Jayanti Shipping Company demonstrated this rather forcefully and led to a situation in which the public resources used for the purpose could be retrieved only by resorting to nationalisation. In view of proven competence of public sector shipping by mid-sixties, the policy of following the essence of the Japanese pattern in shipping was hard to explain in functional terms. The Jayanti Shipping Company case shows that how take-over may have to be resorted to as a corrective for a policy of supporting new ventures by public funds.in an administrative culture susceptible to subjective influences. In brief, various cases of take-over of private shipping companies bring out the functional and non-ideological nature of nationalisation which in its micro and short-run context remains a policy instrument of a private enterprise system.

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Profile of Take-over of Shipping & Shipbuilding Companies.
(Rs. Crores)

S.No.	Name of the Company	Year of take over	Method of take-over	PUC	Net Worth	Assets	Turn over	Compensation or value of shares
1.	Vizag Shipyard	1952	Negotiated Take-over with 43 percent shares with the govt. and 1/3 (equal to Rs. 104.25 lakhs) with Scendia Navigation Co.	6.7500	N.A.	12.9897	9.2849	2.72
2.	Mazagon Dock	1960	Share Acquisition	0.6300	0.6931	0.2800	2.5124	-
3.	Moghul Line Ltd.	1960	Acquisition of 79.56 per cent shares by a govt. company. In 1974, sharesholding raised to 91.77 percent.	1.0119	1.8119	1.0142	1.8642	-
4.	Garden Reach Workshop	1960	Acquisition of shares	0.7000	1.7902	0.5837	1.557	-
5.	Estaleiors Navis De Goa (Goa Shipyard)	1962	As a result of liberation of Goa; As a separate Company since 1967.	0.6007	0.6047	0.3454	0.00014	Not given (Nil)
6.	River Steam Navigation Co.	1965	Share Acquisition; Payment of Liabilities of IBI subsequently; Successor Co. in 1967.	9.7136	-	4.5648 (liabilities 7.8122) Net Negative Assets (-) 3.1574	-	-
7.	Jayanti Shipping Co	1971	Management Take-over in June 1966 By an Act of Parliament (No.63 of 1971)	2.8813	13.8813	29.9861	14.9179	4.50
8.	The Konkan Passenger Ships	1973	By an Act of Parliament (No.62 of 1973)Preceeded by an Ordinance.	N.A.	N.A.	-	-	0.90
	Total 8 Companies			22.3875*	** 18.7812	£ 42.0417	@ 20.8346	++ 8.12

Table Contd :

* For 7 Companies only.   ** For 5 Companies only.   £ For 7 Companies only.

@ For 6 Companies only.   ++ For 3 Companies only.

Source

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"Nationalisation of Engineering and other companies"

KAMAL NAYAN KABRA

Under the provisions of the Industrial Development and Regulation Act, 1951 and on account of specific problems faced by many companies, a number of companies, mostly belonging to the engineering sector, were brought under public ownership and control. There were hardly any cases of the kind during the 1950's and 1960's. During the 1970's, this process of unit by unit take-over of engineering and other firms (except textiles) began in marked way and about 45 companies were nationalised by 1980. In the first section of the present chapter, an account of these take-overs in its various aspects is presented. In the next section, an attempt is made to go into the factors, both specific to the units concerned and general ones relating to the sector or economy as a whole, which were related to these take-overs.

In the course of this analysis, it will be our endeavour to show what were the alternative policy options which were tried in order to deal with the problems faced the engineering and other firms.

I

A summary of various developments in the process of taking-over of engineering and other companies is presented in the Annexture at the end of the chapter. It can be

seen from the profile that only three companies, (one engineering, one footwear and one for housing) were acquired during the period 1950-1970. All the three take-over were by means of share acquisition i.e. an administrative decision without the fanfare of publicity. With paid-up capital of Rs. 1 lakh Rs.15 lakhs & Rs. 40 lakhs, and assets and turnover of comparable amounts these take-overs cannot be considered very significant. The housing factory was set up in the joint-sector with technical collaboration with an Indo-Swedish firm with equal shareholding in 1953. Shortly thereafter the Government took over all the shares as the joint-sector arrangement did not work satisfactorily.[1]

An interesting case is that of two tannery and footwear units of British India corporation, (BIC) Kanpur, (Asia's biggest concerns of its kind) which were taken over in 1969 as a result of the mess in which the two units were placed by its management. The units were making losses since 1953. As maintenance, replacement and modernisation of machinery, equipment and plant were neglected, the units were on the verge of closure. They had accumulated huge arrears of workers' dues and closure would have rendered about 2000 workers unemployed directly and ten thousand unemployed indirectly at a time when, in the wake of industrial recession, there were hardly any new openings available

for absorbing the workers.[2] A steep rise in the prices of raw materials, stores, ect. and dearness allowance during 1965 and 1966 dealt crippling blows to the concerns.[3] Since it was on the brink of a closure with huge unpaid dues of workers, and the Government wanted to protect the employment of workers, the units were bought at a nominal price of one Rupee with the State accepting the past, accumulated liabilities of payment to the workers. The main factor making for nationalisation of the company, however was the mismanagement, which weakened its financial position, capital equipment and capacity to withstand fluctuations in business prospects.[4]

The government had to intervene because in an industrial area Kanpur and in the uncertain political situation towards the close of the sixties,[5] it could not allow such large and important industrial units to shut down. Handing over to another private entrepreneur was difficult because it was likely to be very costly, time-consuming and uncertain, even if such entrepreneurs could be located who were willing to take-over so badly mauled units.[5] Then, the stated commitment to 'socialism'[6] would have been badly exposed if the public ownership option was bypassed even in such cases when the private ownership and management had failed so miserably and demonstrably.

Both Nathan Foundry and Hindustan Housing Factory were relatively small joint sector companies. The former

had to acquired as a result of Integration of princely State into the Indian Union which removed the former Maharaja who had a stake in the company from the scene.7

The process of state take-over of engineering and other firms (mainly jute, automobiles, cycles, pharmaceuticals and engineering supplying manufactured intermediate goods to various industries) really began as a regular feature of industrial scene after 1970. A number of units in each year were compulsorily acquired by the State during 1971-1980. The total number of such units (excluding the 21 companies associated with Bird and Company in which the State required interest to varying extents depending upon the stakes held by Bird and Company in them) was 45. In terms of various financial indicators, the size of State entry into this sector by means of take-over of ailing and other problems - ridden units can be seen from the following exhibit:

S.No.	Indicator	No. of companies for which data was available.	Value (in Rs. Crores)*
1.	Paidup Capital	43	72.4613
2.	Net Worth	22	87.4886
3.	Fixed Assets	31	163.0183
4.	Turnover	26	263.8218
5.	Compensation or Consideration	39	113.5826**

*during or at the end of different years to which the data relate.

**Excluding management take-over compensation.

It can be seen that given the highly capital-intensive nature of the engineering industry and its impressive growth since 1950, the take-over of these units with over Rs.72 crores of paid-up capital (which would be just under one percent of the total invested capital in engineering industries, let a alone other miscellaneous included in our 45 taken-over units).was not a capable of giving the take-over sector any prominent place in the total engineering industry.[8] The fact that except for a handful of companies e.g. (Indian Copper and Lagan Jute Machinery and some subsidiaries of Balmer Lawrie), none of the companies was in an operationally strong position suggests that only by making fresh capital investments could the taken-over sector be made an important operational component of the engineering and allied industries.

Nor was the turn-over of the taken over companies any significant part of total engineering output (under 3%) either to give the Government a capacity to decisively intervene in the engineering goods industries by means of its directly controlled production capacity or to enable it to earn sizeable surplus. How-ever, there was the factor of prospective significance after rehabilition of these units owing to the fact that these units were producing commodities which were very significant in their linkages effect for the entire industrial sector.

The coverage of the information that we have with respect to paid up capital, networth, assets, turn-over and compensation is not comparable because the information relates to different number of units for different points and periods of time as also because of the fact the information under various heads does not relate to the same units. However, on the basis of limited data available, it can be said that compensation for 39 units was over 158 percent of the paid up capital for 43 units.[10]

No uniform set of principles could have been applied in the determination of compensation or the price of shares in the case of share acquisition. This is because, among other things the process of take-over was spread over a long period and was undertaken by different ministries. Moreover, the reasons for take-over were also widely

different and there was no possibility of applying any uniform set of criteria. For example, in the case of one company the liability accepted by the successor public sector company included the worker's outstanding dues of the order of about Rs. 5 lakhs. Hence only a taken payment of Rs. 1/- was made to the former owners i.e. British India Corporation.

There were some other cases when compensation was determined with reference to the networth while in other cases a negotiated amount was arrived at for transferring the company to government control. What appears an important thing is that in these decisions importance did not seem to have been given to the determination of compensation amount with a view to minimise the payment liability to the Government. This was partly on account of the legal position stipulated in the Constitution and reinforced by many judicial pronouncements concerning transfer of and compensation for operating assets and business under the due process of law.[11]

In the engineering and metal works sector we have the interesting case of Metal Corporation of India (MCI) for which the compensation issue lingered on for a very long period. MCI faced shortage of finance required for implementing the license obtained in 1960 for setting up zinc smelter on account of considerable increases in project cost and non-viability of the original project. This forced the

government of India/to decide to take-over the company in 1965 with a view to explcit zinc-lead deposits, in the country. The MCI (Acquisition of Undertaking) Act, 1965 was declared void by the Punjab High Court on ground of the failure of the compensation provision to pass the test of being a "just equivalent of the properties acquired." and was upheld by the Supreme Court.(12)

In terms of a fresh law passed by the Parliament with retrospective effect in order to sustain the compulsory acquisition of MCI, the assets of the company were to be assessed for determining the compensation amount. Ultimately, the issue was referred to a one-man Tribunal in 1971, whose tenure had to be extended upto 1977 though it could not arrive at any decision.[13] The company's claims for compensation stood at Rs. 101.80 crores, which is over 50 times the actual compensation (or amount) paid to the company in 1976 in terms of a fresh law enacted for the purpose.[14] This became possible following the constitutional amendment which dispensed with the need for judicial review of compensation as just equivalent.[15] What is highlighted by this long-drawn case is, on the one hand, the failure of the government to fix an appropriate amount in the Act itself[16] and, on the other, the cost, delay, uncertainty and consequent increase in the amount of management compensation (exceeding Rs. 1.22 crores as compared to

Rs. 1.98 crores by way of final acquisition compensation) on account of prolonged litigation, and administrative efforts in completing the process take-over (the compensation Tribunal worked for over 6 years without sorting out the issues).

There was also an interesting case of Lagan Jute Machinery Ltd. which had to be acquired from a Belfast based company of Northern Ireland. Take-over became essential because the company did not want to submit to Foreign Exchange Regulation Act. Here the amount of Rs.1.30 crores which was paid to the company for share acquisition was a very reasonable sum considering the value of assets, PUC or profit-making capacity of the company as there was a constant introduction of better jute mill machinery by the company. This was mainly because of the fact that the foreign interests involved were keen to move out of the country and were not interested in selling their interest to private Indians. There were also cases when some companies were acquired because these were subsidiaries of taken-over parent company. In such cases no separate compensation payment was required.

In sum, as a result of these take-overs, the ownership structure of the engineering industry did not change in a marked manner. After all, of the total number of over 25 thousand engineering factories, 8 big and small operating in 1978 the total number of central government public

sector units (including fresh investment based units) did not exceed 61 at the end of 1980.[18] However, in this sector, the proportion of taken-over companies to public entrepreneurial units is fairly impressive, being 18 out of 61.

II

Why were so many companies, mainly belonging to the engineering industry, taken over during the 1970s? It has been contended that "since 1971 there were a series of nationalisations and take-over" and that "there was an element of arbitrariness in the actions of the State which made the capitalists uncomfortable.[19] If this contention is valid, it would mean that political caprice, compulsion or manipulation without any systematic basis in the sphere of industrial regulation or in the economic and financial position of the units concerned or their role in the industrial structure of the economy had much to do with the decision to take-over these units. Detailed scrutiny of the financial and economic position of the units prior to their take-over, particularly on the eve of the transfer, their relationship with public agencies in terms of various economic laws and regulations, the stated reasons for their take-over and the commonality found in various individual cases of take-over hardly provide any evidence for considering these take-overs as arbitrary. In the following we present an analysis of various factors relating to the engineering and other units concerned as well as economy-wede factors which played a part in the take-over

of these units.

These 45 cases of take-over of engineering and other companies can be grouped into several categories in order to highlight the factors which contributed to their State acquisition.

(a) Many of them were very old, mainly British, engineering companies set up a long-time ago with a view to produce important components and machinery for railways, defence, shipping, telecommunications heavy construction equipment, etc. The beginning of the companies can be traced back to Eighteenth and Nineteenth centuries.[20] A good number of those were located in West Bengal and Maharashtra. These companies became sick mainly because of the neglect of maintenance and replacement. Two additional factors contributed to their decline and subsequent take-over. First, the recession in the form of loss of orders, high prices, non-availability of raw materials and components, mounting losses, neglect of replacement and maintainence, rising wage-bill (on account of rising prices) and industrial unrest etc. As a major general crisis, the recession made many units non-viable.[21]

Second, many of these units were under the control of relative small foreign investors as compared to large MNCs. The neglect of these units and sale of many such units to Indians suggest that in the changed political and economic context, this segment of foreign capital thought it prudent to bow out, or, at least not increase their stakes in India.

(b) Then there were companies which were set up with Government participation either at the Central of the State level but had to be taken-over because future needs for finances for expansion could not be mobilised except by exclusive reliance on public funds or the joint sector management arrangements did not work smoothly. Hindustan Housing Factory, Nahan Foundry, Metalscrap Trading Corporation, etc. came under this category.

(c) There were also some companies which have recently been set up to supply some important components or materials to newly coming up steel, engineering and power plants. Because the private owners could not run them properly while these units were of critical importance to the economy, they had to be brought under state ownership and control. Asian Refractories, Indian Firebricks & Insulation, Assam sillimanite etc. belong to this group. Bokaro Steel plant found its experience of obtaining refractories for its first stage from Asian Refactories exasperating. Hence its take-over

and merger with Bekaro Steel Ltd. 1974.

(d) Beicco Lawrie, Steel containers, Bridge & Roof Co., a number of subsidiaries of Bird & Co. and Sen-Releigh, IISCO stanton Pipe & Foundry, etc. are examples of conseuent-ial take-over.

(e) The Indian Copper Corporation was the case of a policy based take-over, net necessitated by either poor financial results shown by the company or its mis-management or because of running down of its plant and machinery. It was based on the need to replace private monopoly control over a scarce and critical commodity whose future planning and development was thought to be best ensured under public ownership. This was a case of an attempt to end private monopoly in an important area and for the positive purpose of bringing about systematic conservation and integrated development of copper mines in a scientific manner. This sterling company held mining leases over about 17 thousand acres for copper minerals and for about 5 thousand acres. Obviously, integrated develo-pment of mining of these key metals was facilitated by the take-over of ICC.

(f) There was the case of a foreign company from a small capitalist country which did not want to dilute share holding under Foreign Exchange Regulation Act and decided to pot out by selling its share holding to the government and

declined to sell its share holding to various private parties, which had shown interest in acquiring it.

(g) Then, there is the case of five jute mills which had to be taken over because of the specific problems of industrial sickness which became applicable to the jute industry.

(h) We also have the case of two pharmaceutical and chemical companies where poor finance, continuous losses, poor management, inability to keep the units running and failure to revive the companies either through appointment of Government Directors of by meansof loan from Industrial Reconstruction Corporation, left no option available save their take-over. For one company, even the books of account were heavily in arrear and statutory audit was delayed and many defects were found in their accounts.[22]

(i) There is the case of Maruti Limited, which is a classic case by itself of taking over a mis-advanture initiated by someone who was not only close to the highest political authority in the country but had catalh,ated himself into a position of formidable political power. The unit which was under liquidation and for which orders for winding up had been issued was taken-over by the government mainly with a view to make use of existing infrastructure created but which could not be sustained or utilised for a variety of reasons.[23]

(j) There is the case of two bicycle manufacturing units, one of them controlled by one of the biggest monopoly houses in the country and the other a very respectable brand name in the field, which had to be taken-over for ensuring continuity in the production caused by poor management, worsening fiancial ratios and the declined resource-base owing to poor management.

It is apparent from the above account that the majority of these companies had became non-viable, were making heavy losses, were closed, became insolvent and/or had gone into liquidation. Some of them were in arrears with respect to timely preparation of their accounts and audit. Nor were they able to follow some other requirements of the company law. Their plant and equipment were not properly maintained. Owing to loss of markets, low-profitability, reduced interest of their foreign controllers in these companies's operation in India, emergence of stronger, bigger and technologically more advanced competitors both in the public and private sectors. Timely and adequate replacement and modernisation of plant and equipment also suffered. These units did not have any worthwhile R & D outfits of their own and in a competitive and quickly advancing field like engineering, it is difficult to survive without constant technological upgradation based on one's own efforts and resources.

Mismanagement was often cited as a reason for the ailments which gripped these companies. This is both an easy and a difficult proposition to analyse.[24] The causes of Richardson and Cruddas and Alcock Ashdown, where mis-mangement fiananacial and other irregularities and fraudulent practices were seen, are attributable to a change of management whose interest seemed to centre away from production, and technological and mangerial excellence. It seems to be a case of reemergence of some crude practices which survived the defacto abolition of familial managing.[25] If the ex-post, actual situation of the companies is taken into accounts the charge of mismangement is self-evident, except for one caveat. At times, external factors beyond the management's control and forebearance or some random, accidental factors or events or some serious mishap like the one which occurred in the case of Mandya National Paper Mill or non-viability of the project itself as in the case of Metal Corporation of India, or some national or international political event like Indo-Pak War, may put an enterprise into an unenvious position.

The industrial recession of mid-sixties, accompanied by economic crises caused by severe drought and the fiasco of devaluation of 1967 may be treated as external macro economic shocks which led to a situation beyond repair or redemption by the managments of these firms. Such genreal factors

impinge hard on some units, either owing to their specific character making them vulnerable or owing to the weakness of its managements capabilities in crises mangement. For example, companies producing goods for railways (like wagon manufacturing units) and other government agencies faced loss of orders as the government reduced orders owing to difficulties in raising requisite plan finances.[26] The prices offered by government agencies were also found inadequate by many companies. Burn & Co. and Indian Standard Wagon Ltd., e.g., were companies which faced such problems. In any case, during the period of recession a generalized demand deficiency faces many industrial units simultaneously and becomes mutually reinforcing. The old engineering units were hard put to bear the brunt of the recession particularly because these old plants were largely making supplies to public agencies and were apparently unable to cope with the competition of technologically advanced newer units. A situation of recession, leading to closures and cuts in production worsens industrial relations which further contribute to the difficulties in meeting the normally$ expected rates of return by the corporate owners from these companies.

The case of The Indian Iron and Steel Co. Ltd., shows quite clearly the role of recession and labour relations, particularly in view of the prevailing political

situation in West Bengal in compounding the problems caused by mismanagement and irregularities. It was maintained that "Production and dispatches declined as a result of the recession in the economy and labour indiscipline."[27].

Alongwith these time-specific problems, the company suffered on account of rising production costs "not compensated by increases in selling prices of finished products."[28] To this was added the recurrent problem of inferior and inadequate coal supply. The run-down conditions of the plant also raised the cost of production of IISCO and thus lowered profitability. Often capacity utilisation was as low as 60 per cent. Thus recessions hit IISCO particularly hard as it was a weak and badly managed unit.

Similarly in 1966, there was a substantial reduction in the turnover of Bridge and Roof Company "due to the impact of recession in the structural and civil engineering business." As the recession was accompanied by sharp price increases, leading to cost-push, while orders could be obtained by the engineering firms only at very competitive rates, giving small margins, subsequent revival of production was not accompanied by commensurate profits. In fact, rising cost of living index for industrial workers hampered industrial

peace and these concerns could not be adequately revived.

While the financial, operational, labour relations, order book and technical condition of these companies was, by and large, reaching a critically low level, the commodities produced by these companies, capital and intermediate goods, machinery and equipment etc; were of vital importance to the domestic economy and in certain cases like those of wagon manufacturers and production of pig iron for meeting export obligations. If public and private investment in the industry had created adequate fresh capacity with advance technology privinding alternative sources of regualr supply it could possibly have not mattered so much to close down the ailing units. But public investment in these branches of engineering could not grow at levels enunciated in the plans, particularly according to the logic of the second five year plan model of high priority to basic and capital goods industries.[30] In any case, not only production, but protection of the employment available in these units was also a high priority objective, particularly on account of its political weight.

The only exception to such compulsive acts of nationalisation which hardly left any other feasible source of action open save nationalisation was the case of Indian Copper. Here was a case in which public ownership and control,

for a widely held sterling company[31] was preferred to continued private control and management for the only private unit in copper mining and production. Given the importance of copper, in 1972 management of the company was acquired by the government in order to "conserve our copper resources" and "exploit in a scientific and rational manner, to the maximum advantage to the nation, the copper deposits in the Singhbhum belt in the state of Bihar", with a specific "aim to achieve a cut-off grade of something like 0.5 per cent" against the prevalent cut-off grade so far as copper ore is concerned of over 1.8 per cent and an average milling grade of over 2 per cent maintained by the private company.[32] This was a case of conscious preference of public ownership over private in order to ensure integrated scientific use of a scarce resource.

The other cases of take-over viewed nationalisation as a method of retrieving and sustaining ailing and/or closed enterprises in view of their importance. There was no systematic policy which the government had devised so far for dealing with the natural capitalist process of decay and demise of old, outdated, technologically backward and financially insolvent enterprises particularly in the wake of recessionary conditions. Given the Indian situation in which alternative sources for the supply of these products and for the absorbing the labour force retrenched

were not emerging, the government could not think of anything else but to assume the responsibility itself which was in keeping with the statist policy perspective adopted since 1950s.

In classical cases of capitalist development, the process of concentration of capital in fewer, large masses of capital and maintenance of a reserve army of labour require some smaller or less effective firms to go insolvent and out of business. These dying capitals are acquired by larger firms growing into monopolies and the labour force working in these units become unemployed to swell the reserve army of labour. In the case of India's post-colonial, state-supported, non-dynamic capitalism with a plural capitalist democracy, neither the concentration of capital by subsuming the units threatened by insolvency, nor swelling the ranks of unemployed by adding to it those who were already employed (in addition to millions waiting for their first employment) were acceptable. Such a course did not seem to make either political or economic sense. For the concentration process, a number of other more powerful and effective methods like state support, technical-financial colloboration with foreign capital, narrow size of the market giving market dominance to existing firms etc.were available. Existing backlog of unemployment and the rate at which the natural and

migration processes were adding to the industrial reserve army seemed to make **retrenchments** an unnecessary mean for the purpose.

The dilemma facing the Government was that, on the one hand, these units were in a poor state of health and required a good deal of nursing at technical, financial and managerial level and, on the other hand, they had a great deal of importance, particularly in the short-run, for the economy. Some units, specifically set up for supplying some important inputs for steel plants, power plants, jute mills and many engineering factories were unable to discharge these tasks satisfactorily. But continued supply of their products was obviously necessity for the economy. Through management take-over, precious public efforts and resources (physical, human and financial) have gone into reviving these units and for putting them back on the rails.

What was to be done to the units which were restored to sound functioning by the device of management take-over? Restoring them back to erstwhile owners would have been less just because public efforts and resources had gone into them to a considerable extent and management compensation had been paid to the former managements (as though management is not a responsibility but a privilege!). In fact, as a result of the interventions made by State in revitalizing these units, the assets and profitability prospects of

these companies brought compulsorily under public management had improved. Restoring these units to their former managements would amount to gifting public resources to private industries for their penalisable action and without any assurance of non-recurrence of similar deleterious.

In fact, some M.P.s wanted that the fact of shoring up the assets and profitability of these units by Government management should be taken into account in determinig the compensation to be paid to the former owners at the time of the public acquisition of these companies. For instance, at the time of the final take-over of IISCO after about five years of management take-over, some M.P.s pointed out that by the policy of piecemeal (i.e. in many stages) take-over was self-defeating as the restroed sound functioning of these units had increased the compensation liability of the government. This policy was dubbed as one of baby-sitting for hospitalized industries.[33]

In the case of IISCO, it was pointed out that in addition to Rs. 23 crores paid by way of management compensation, Rs. 55 crores were spent in 1973 on rehabilitation and a further sum of Rs. 80 crores was required for modernisation of the company's machinery.[34] In fact, after management acquisition, profits were shown for three years by the company during 1972-73 to 1974-75.[35] The methodology of public acquisition

in stages, determination of compensation without regard to the role of public agencies and the practice of paying compensation for discharging the management function seem to compromise the significance of transfer of private productive assets to public agencies.

Even the option of their final acquisition involved some risks in the sense that the units might not be able to cross the hump. Apart from bringing bad name to public agencies for the failure to revive the units, the prospects of financial losses would also have to be given some weight in taking a decision about the fate of sick units, particularly after their management take-over. In fact, many of the taken-over enterprises continued to make losses as the Table below shows.

It can be seen that the cumulative losses for the five year period (1975-76 to 1979-80) exceeded, in many cases, the total assets of these companies at the time of their take-over. It may be inferred that even the private enterpreneurs might have been able to foresee the dwindled profit-making prospects of these companies and that the sickness of these units was not a matter of cyclical downturns in their fortunes. Hence it should be fairly realistic to assume that not much pressure or lobbying

would have come from the former owners in order to block the final government acquisition of these companies.

We need not go into a detailed analysis of industrial sickness.[36] Even so, it is clear that widespread industrial sickness, particularly in traditional industries, and in the engineering sector for the older units and on account of severe adverse impact of recession on capital-goods producing industries, as witnessed after mid 1960's , was not anticipated by the authorities concerned with industrial regulation and management of the economy. Hence, some adhoc approaches were adopted. These consisted, as our study of 45 taken-over engineering and miscellaneous shows, in the main, of increased and concessional lending by public financial institutions; financial, management and technical interventions by the Industrial Reconstruction Corporation; stricker enforcement of the provisions of the Company Law in cases where improper or ineffective management practices were found to be contributing to industrial sickness and application of the provisions of the Industrial Development and Regulation Act, 1951, particularly by ordering enquiries and appointments of government authorised directors, and management take-over for varying periods, of going even up to 7 to 8 years.

One can think of some other alternatives, like mergers of either a voluntary or a compulsory basis with some well-managed

and stronger units, may be by means of some fiscal or other incentives; relaxation of some of the economic regulations like price controls or labour laws or tax concessions, increased public investment in order to quickly revive the economy from recession, etc.

In the case of the units discussed in this chapter, I did not come across evidence showing that the measures described above were tried. Some of these measures like mergers with viable, stronger units under governmental stimulation were started at a later stage but failed to evoke much response. At times, proposals for mergers with bigger companies may come in conflict with other aims of public policies and laws. For example, when the Asian Refractories plant was put on auction by the Court, the offer by a company belonging to a MRTP Act business house was not accepted on account of anti-monopoly consideration.[37] Evaluation of policy options, in such cases, becomes very difficult on account of a complex mosaic of considerations. For instance, even before the time the Asian Refractories plant went into commercial production, COPU has recommended the setting up a public sector refractories plant.[38] Had this recommendation been heeded to, by the time the Asian Refractories ran into trouble, a public sector alternative would have emerged.

Attempting things like prevention of excessive diversification by old, established firms during their better days to more profitable, dynamic and technologically advancing industries has not been attempted. This is a clear case of conflict between private ends (seeking greater profit earning opportunities by reinvesting in newer industries) and public ends (reinvesting in those traditional industries where surpluses are earned, "keeping capital constant", as these industries are socially important). This can be seen as a normal market economy process of re-organisation of capital. In such a context, it would normally be difficult to expect large and growing concerns to agree to saddle themselves with the responsibilities of decadent concerns.

Since there was hardly any worthwhile monitoring of the performance of individual enterprises, generally advance notice of impeding sickness was not available. Relaxation of controls and taxation could then be too late. In any case, it is very difficult to make such selective relaxations and the danger of healthy units getting greater advantage of these relaxations, worsening the competitive position of the unhealthy units, also cannot be overlooked.

This is in addition to the forces of the factors which necessiated the controls and curbs on the industries in question. In any case, subsidisation schemes of this

kind do not work for long, except for postponing the day of reckoning particularly in view of poor management (whether inherently so or deliberatly) technological, obsolescence, adverse market conditions and deteriorating industrial relations.

The method of management take-over, which was provided for in the Industrial Development and Regulation Act[39] was direct and gave the Government the necessary powers and oppertunities for putting the house in order for these undertakings, though it could come quite late when substantial harm has been caused. At times, it was not possible to acquire management control without completing a formal investigation. Though necessary, it could cause a loss of valuable time. Since the experience of appointing some government directors on the Boards of the companies did not turn out to be effective, (as effective control still remained with former owners) management take-over was preferred. As seen above, after management take-over and revival with public efforts and resources, it become very difficult and embarassing for a Government with statist attitudes and socialist rhetory to handover the companies back to the defaulting and proven ineffective management. The consequences of such take-over were not always and necessarily disturbing and inimical to the former managements at least in the short-run. This was particulalarly so in view of the provision of management

compensation to the former managements. For being absolved of the function and responsibility of management, a certain compensation was paid by those who undertook the task of management for correcting various sins of commission and omission by the former managements! The irony of the arragement was lost as management appeared to be considered a lucrative privilege based on ownership rather than proven functional competence and hence its acquisition was compensated.

However, for the private sector as a whole, the consequences of take-over could be adverse, particularly over a longer period. This could be partly on account of the ideological fall-out of these take-overs and partly on account of the growth of the public sector. Hence, many fora of business and industry expressed apprehensions and protests, particulrly when the units were not handled back to the erstwhile owners.[40] But the overall political economy of the day and narrower economic, financial and administrative factors gave rise to a till to in favour of nationalisation.

Notes

1. Estimates Committee, No. One, 13th Report, Ministry of Production. Chapter III. P. 23. Commerce, Commerce Year Book of Public Sector (CYBPS) 1973-74, Bombay, 1973. p. 375.

2. CYBP S, 1980-81. Bombay, 1981, pp. 306-307.

3. Ibid.

4. Bombay Stock Exchange, Official Directory, Vol. 4 (iii)p. 25500.

5. Frankel, F, India's Political Economy, 1947-77.

6. Not only the Avadi Resolution, but the rhetoric used at the time of the Congress Split brought 'socialism' to the fore as the slogan of the ruling Congress Party. Ibid.

7. Estimates Committee, No. One, 13th Report, Op.cit. Chapter IV, P. 28 and Ministry of Finance, Report on the working of Industrial and Commercial Undertakings. 1963-64. pp. 54, 58, 23.

8. During 1977-78, there were 25533 engineering factories working with productive capital of Rs. 765408 lakhs and invested capital of Rs. 900223 lakhs with per factory productive capital of Rs. 29.98 lakhs and invested capital of Rs. 35.26 lakhs. See, Handbook of Statistics 1981, Association of Indian Engineering Industry, New Delhi, 1982. pp. 2-3. During 1970-71 - 1980-81, the compound rate of growth of engineering industry was 4.8 percent per annum, as against 4.1 percent for all manufacturing. Ibid. p. 49.

9. Turnover of engineering industry in 1977-78 was reported to be over Rs. 11268 crores. Idem.

10. Expressing the deflated values of the figures given in the Annexture would make no difference in a relative sense as a common deflator would be used for all the variables involved.

11. For example, in the judgment on the petition by Metal Corporation of India, See, Note 12 below.

12. COPU, Report on Hindustan Zinc Ltd., 88th Report, 1975-76 Ministry of Steel and Mines, Deptt. of Mines, New Delhi. 1976. Sections 1.1 to 1.3.

13. Ibid., Section 1.4.

14. Ibid. Sections 1.6 to 1.8.

15. This was done by amending articles 19(g) and 31 of the constituion by the 25th Constitution Amendment in July, 1971. See Lok Sabha Debates, Vol. IX, No.14, Nov. 1971, Col. 220.

16. Ibid. Section 1.13 and the Metal Corporation (Nationalisation and Miscellaneous Provision) Act, 1976. (No. 100 of 1976) Chap. IV. Clause 10 & 11. Management Compensation at the rate of Rs. 11.33 lakhs per annum was paid for the period Oct. 1965 to August 1976. It amounts to over Rs. 1.22 crores.

17. Economic Times 20 July, 1978.

18. Hand book of Statistic, 1981, AI EI, Op.cit., pp. 274 -277.

19. Mukherjee, Sanjeeb, The Indian Big Bangeosie and the State : An Exploratory Analysis. Occasional paper No. 49 (mimeo) Centre for Studies in Social Sciences, Calcutta, p. 26.

20. The following shows the age-profile of some of the taken over engineering companies:

Rechardson & Cruddes - 1858 (a partnership company - converted into public limited co. in 1949).

2.	Jessop & Co.	1788
3.	Bridge & Roof Co.	1920
4.	Indian Copper Corporation	1924
5.	Burn Standard Co.	1895

6.	Balmer Lawrie & Co.	1924
7.	Andrew Yule & Co. converted into a Limited company in 1919.	1867
8.	Metal Corporation of India 1944. (began under a different name in 1941).	
9.	Gresham & Craven of India	1935
10.	Indian Iron & Steel Co.	1918
11.	Bengal Chemical & Pharmaceutical Works	1900
12.	Bird & Co.	1928
13.	Braithwaite & Co.	1930
14.	Arthur Butter & Co.	1919
15.	Biecco Lawrie Ltd.	1919
16.	Alcock Ashdown & Co.	1884

21. "The index of industrial production (base 1960=100) increased by only 1.7 percent in 1966-67 and there was hardly any grwoth (0.3 percent) in 1967-68. This sharp deceleration was accompanied by an increase in unutilitsed capacity in a number of industries. Evem then the stagnation was not general. It was most pronounced in certain capital goods industries." GOI, Fourth Five Year Plan. New Delhi, p.78. The compound growth rate of industries declined from 7.66 percent during 1951-65 to 1.22 percent during 1965-68. Sandesara, J.G. 'Industrial Growth in India, Performance and Prospects' in Indian Economic Journal, Oct-Dec., 1982, p. 121.

22. Annual Report for the year ending 30th June 1971; Smith, Stanistreet & Co. Ltd.

23. A Special Correspondent of Economic Times (December 24, 1980) reported that given the level of demand for passanger cars in India and its growth, the level of existing production of cars, the Maruti car project will require a substantial export market for the major part of its output if the project is to succeed. What

part of its output, if the project is to succeed. What emerges from the report is that there is little evidence of a proper examination of the project before the infrastructure of a flopped project was acquired by the government.

24. For the role of management factor in Sickness of units, See Sinha S.L.N. "Sickness of Industrial Units: Some Observations, Institute of Financial Management and Research, Madras, 1977, pp. 14-23.

25. Ibid. p. 16.

26. Difficulties in raising resources for the plan during the last years of the Third Plan led to postponement of the Fourth Plan, giving rise to three years of plan-holding. See for details,

27. Bombay Stock Exchange Directory (various issues) for the material on Indian Iron & Steel Co, Ltd.

28. Ibid.

29. With the All-India consumer price index for industrial worker for 1960 as base, the purchasing power of Rupee was 73 paise, 66,2 paise, 58.1 paise and 56.5 paise. During 1965, 1966, 1967 and 1968 respectively. Statistical Outline of India, 1984, Tata Services Ltd., Bombay, 1984. p. 184.

30. See note 21 for showing deceleration in capital goods industries.

31. Lok Sabha Debates, Fifth Series, Vol. 12, 4 April, 1972 Col. 233 Speech by Mohan Kumaramangalam.

32. Ibid.

33. Lok Sabha Debates, Vol. XVII, No. 6, August 22, 1972, Col, 173.

34. Ibid. Col. 177.

35. New Age (weekly) 21 Feb. 1978.

36. Apart from Sinha, S.L.N., <u>op.cit.</u> mention may be made of the following as dealing with the problem of industrial sickness -

a) NCAER, A Study of Industrial Sickness, New Delhi, July, 1979,

b) Gupta, L. C.

c) Gopal, V.K., 'Study of Sick Units' <u>Economic Times</u>, 22 April, 1976.

d) Shanbhag, N.A., 'Clinical Approach to Industrial Sickness', <u>Financial Express</u>, 17 October, 1977.

e) Bengal Chamber of Commerce/IIM, Calcutta.

37. Rankishnayya, Chapter III, p. 76.

38. <u>Lok Sabha Debates</u>, Vol. X, No. 21, Dec. 10, 1971, Col. 20.

39. IDR act.

40. Many such protests are listed quoting the records and proceedings of the Annual Seminar of FICCI by Mukherjee, Sanjeeb, <u>op.cit.</u> pp. 26-27.

Nationalisation of Engineering and other miscellaneous companies.
(1947-1980) Rs. in crores

S.NO.	Year	Name of the Company	Method of Take over	Reasons	PUC	Net Worth	Assets	Turn Over	Compensation/ Consideration	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	1953	Nahan Foundary	Share acquisition	Poor Financial position, no working capital	0.40	-	-	-	0.30	
2.	1955	Hindustan Housing Factory Ltd.	Share acquisition	Initially it was a joint Venture; further investment needs met by Government.	0.01	-	0.0161	0.1854	-	-
3.	1969	Cooper Allen and North West Tannery branches of British India Corporation.	Share acquisition	The two tanneries were taken over from BIC in order to set up Tannery and Foot-wear corpn. Ltd. in order to modernise them and make economically viable; were making losses since 1953. Closure was feared to lead to direct and indirect unemployment.	0.15	N.A.	0.3969	0.4565	Rs. one only	Liabilities concerning worker's dues of Rs. 41.53 lakhs. Mismanagement of machinery further wor- [illegible] position of the units

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
[illegible].	1971	Asian Refractories Ltd.	An Act of Parliament No. 65 of 1971	For augmenting supplies of refractories to meet the need of Iron & Steel Industries, railways, Defence, power plants	0.5469	-	-	-	0.81	Was under liquidation and had stopped production of refractories, sued by suppliers. Initial take over by an ordinance. A Birl[illegible] concern, Eastern Spinning Mills, offered to buy it for Rs. 77 la[illegible]khs. Though the cour[illegible] accepted the offer permission under MRTP Act 1969, was needed.
5.	1972	Richardson & Cruddas Ltd.	By an Act of Parliament.	Making Losses since [illegible] 1969; not [illegible] investment in modernisation; hit by recession of 1967-69; in so mismanagement and irregularities; was under Calcutta High Court since 1957; taken over in order to continue production and supply of essential goods for Defence, Railway, steel plants and power projects.	1.2000	-	1.2242	4.1674	0.30	Taken over also in order to reconstitute share holders - register as it was not possible to provide for proper management owi[illegible] to existence of duplicate shares. Tribunal for shares register. Fraudulent practices. An old engineering co[illegible] was bought by H.D. Mc[illegible]ndhra group in 1947 and became a co. in 1949.

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
									by H.D.Mundhra group in 1947 and become a co. in'
1972	Indian Copper Corpn. Ltd.	An Act of Parliament	i) The Company had a monopoly of a scarces and important metal whose annual imports were worth Rs. 60 crores. ii) Non Conservation of Copper reserves as seen in higher cut of grade. iii) Renewal of lease was demanded by both by the company and a public sector company and it became essential to take-over in order to ensure integrated development of the mines and scientific and rational mining in the Singhbhum belt.	Rs.1.60	-	28	0.6937	11.50 and Rs.75 thousand per month by way of management compensation	It was a sterling Company 2.5% foreign share holding Public financial Institutions share holding about 20%. Take-over also in order to give effect to Article 39 of the Constitution.

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1972	Bicco Lawrie Ltd.	Consequential take over.	It was a subsidiary of Balmer Lawrie & co.	0.3250	0.4986	0.5160	2.9488	-	
1972	Steel Container Ltd.	Consequential take over.	-do-	0.21	0.5045	0.176	2.9546	-	
1972	Bridge & Roof Co.Pvt. Ltd.	-do-	-do-	0.36	1.1436	0.3524	5.2050	After recession problems low prices high costs, labour etc. could not be coped by company.	
1972	Industrial Containers Ltd.	-do-	-do-	0.18	0.3339	0.0734	1.1345		
1973	Alcock Ashdown and co. Ltd.	By an Act of Parliament.	For ensuring rationale and coordinated development and production of goods, essential for the economy in general and defence in particular. Insolvent unit A Company belonging to Turnover Morrison Group was closed in 1971. Investigation Committee found irregularities and mismanggement court ordered liquidation after initial hesitation. Takenover under Article 31 of the Constitution.	0.8349	0.8677	0.8703	2.8523	1.0	Incurred heavy losses and Bombay High Court ordered winding up of the Company. 2 units, one at Bombay another at Bharnagar made profits upto 1965,703 shares held by H.D. Murdhra, Mismanagemen & Fraud.

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1973	Jessop & Co. Ltd.	Share acquisition and conversion of loans into equity.	Management was taken over in 1958 and gradually government share holding was increased to 95%, irregularities in management of the company.	2.24	(-7.1406)	5.3158	21.3752	-	To begin with, GOI acquired 50.15% of shares. It was increased subsequently.
1973	Metal Scrap Trading Corpn. Ltd.	Share acquisition even when it was a joint sector company, only six out of 18 directors were representing public agencies. It was made a subsidiary of the Steel Authority of India Ltd.	Was founded to chanalise ports of Ferrous Scrap; taken-over in order to enlarge and diversify operations.	0.20	0.2161	0.0045	-	1.98	

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1974	Andrew Yule & Co.	Share acquisition [illegible]% of equity was acquired Since 15% of the equity was with public financial institutions, it became a public unit. 88% shares with govt. and public financial bodies.	It was taken over under a scheme of reconstruction initiated by the Industrial Reconstruction Corporation of India Ltd.	2.06	1.0220	1.3453	4.1057	-	could not make prof[it] for 13 years after takeover. Was a leading managing agency house. Later become a mult-product, multi-unit conglomerate.
1974	Mandya National Paper Mills	Share acquisition	Hindustan Paper Corpn. Ltd. acquired 92.6% equity capital. The co. was started in collaboration with an US company. It was closed for 2½ years before being taken over. Was set up in order to use Bagasse from a State Government Sugar Factory, Mysore Sugar Co, It had problems with respect to power supply. The Captive power plant met with an accident leading to closer till 1963. Sugar Mill closer disrupted the supply of	2.0273	-	4.6177	2.3551	-	-

Contd....7....

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
				Bagasse. Continuous losses; Rs.81.07 lakhs losses during 1962-66. 1968-71 losses amounted to Rs.0.88 crores. Total debts amounted to Rs. 3.059 crores.						
16.	1975	India Fire-bricks & Insulation Co, Ltd.	Share acquisition	Was made a subsidiary of Steel Authority of India Ltd. as it produced an important inputs for Steel plants. Sick unit closed down in January' 74 reviewed under a rehabilitation promoted by the Financial Institutions after take over by SAIL. Was closed down for want of funds and was making losses	1.1967	-	1.3735	0.0188	-	-

Contd....8....

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1976	Braithwaite & Co. Ltd.	A Act of Parliament	It became a sick unit and had to be closed down because in the wake of recession there was a cut back in the orders for wagons and the prices of wagons offered was also low. It had an old plant and technology. There was labour troble also.	2.00	2.66	2.60	12.2308	16.25	Management was taken over under section (18) a of IRD Act Board of Enquiry went into its functions. Nationalised after 5 yrs. of management take over.
1976	Burn & Co.Ltd. and its subsidiary C. burn properties Ltd. & Indian Standard Wagon Co. Ltd.	A Single Act of Parliament for the take over of the companies	Continuous decline of production and heavy losses; strategic role of the two companies for the production of vital importance like for railways, defence etc. Also in order to meet export obligations.	3.64 1.763	3.9345 1.7651	2.2948 0.4295	8.5481 0.6579	13.88 11.35	Undischarged liabilities taken over. Employs about seventeen thousand persons. It formed part of Martin Burn Ltd. 3 yrs. of Management take-over used for finding out the true position of the company.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
0.	1976	Indian Iron & Steel Co. Ltd.	An Act of Parliament	Gross mismanagement and losses since 1972 though in 1975 profit was made; difficulty in raising funds for maintenance and development	27.5813	53.0571	66.3252	134.9952	7.2395	Manageme was take over in 1972. Al 50% Shar held by public f ancial bodies.
1.	1976	Metal Corpn. of India Ltd.	An Act of Parliament	Initially taken over in 1965 by an ordinance which was later replaced by an Act reinacted in 1966. Final Act was, however, passed in 1976 to abolish the tribunal for compensation, taken the erstwhile owners went in for litigation on compensation issue. Great deal of financial difficulties mainly because of dubling of project cost. Taken over to enable Government to scientifically exploit Zinc & Lead Deposits.	2.4664	3.1563	0.3[illegible]7	-	1.98+ plus management compensation of 1.253.	IFC fina ced DGTI viewed i nonviabl

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1976	Assam Sillimanite Ltd.	An Act of Parliament.	For increasing supply of refractories to meet the requirements of Iron & Steel Industry. Project could not be completed owing to financial difficulties. Pilot plant was closed. It was to substitute the import of an important input for Iron & Steel Industry. It was making profits which were low and declining. Management was taken over earlier under Section 18(a) of IDR Act.	0.60	1.8399	3.2566	0.2742	1.0717	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
23.	1977	Smithstanistreet & Co. Ltd.	An Act of Parliament	Suffered losses, management highly detrimental to public interst, incomplete unaudited accounts, management taken-over under IDR Act in 1972, for increasing production of essential chemical & pharmaceutical products.	0.1347	0.1486	0.1236	1.1328	3.0074	
24.	1977	Gresham & Cravern of India (Pvt.) Ltd.	An Act of Parliament	closed, heavy losses, important for railways & engineering industry. Investigated by a Committee.	0.0933	-	1.2057	-	1.76	Vested in Bi thwaite Ltd. 1977. Manage nt was earli taken-over u -r section I of IDR Act. bsidiary of Westing Hous & Brake & Si Co. Ltd.
25.	1978	Hindustan Tractors Ltd.	An Act of Parliament	Management highly detrimental to public interest, suffered heavy losses, for ensuring continuity of production.	1.00	1.1233	1.9295	8.473	1.50	Act amended 1980

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1978	Brittania l Engg. Works Ltd. (Mokameh Unit)	An Act of Parliament	Closed unit under liquidation since 1973 led to a substantial fall in wagon production and of other engineering goods.	-	-	-	-	1.5285	An Investigation committee went into its affairs
1978	Arthur Butlar & Co.	An Act of Parliament	closed unit, management was taken-over	0.103	0.3246	0.3263	0.8612	1.3777	
1978	IISCO Stanton pipe & Foundry Ltd.	Consequential take-over as it was a subsidiary of IISCO	-	3.0	6.5198	2.5368	6.0036	Not required	
1978	Lagan Jute Machinery Ltd;	Share-Acquisition	Manufacturing essential Jute Mill machinery of various sizes as a subsidiary of a Belfast (Northern Ireland) based company with imported compo--nents, there was need for increasing the use of indigenous components. The Co. did not want to	1.65	-	2.42	-	Was sold to GoI for Rs. 1.33 crores (1.33)	

Contd...13....

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
				dilute share-holding under FERA.						
30.	1980	Maruti Ltd.	An Act of Parliament following an ordinance	Closed unit with infrastructure, liquidation proceedings had been initiated and order made for winding up, purpose was stated to make use of existing infrastructure, modernise automobile industry, obtain fuel efficiency & increase production of motor vehicles.	2.64	-	6.84	-	4.34	
31.	1980	Hind Cycles Ltd.	An Act of Parliament	For continuing production of essential goods, detrimental management, financial ratio show poor performance, declining resources of share holders since 1971.	0.6857	0.7766	0.7946	0.1911	2.418 and management compensation Rs.8000/- p.a.	Taken-over by an ordinance earlier management was taken-over.

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1980	Sen-Raleigh Ltd.	An Act of Parliament	For continuity of production, poor management and performance worsened	1.65	0.3175	1.2180	3.3624	7.08 & Rs. 8000 p.a. management compensation	Sen-Raleigh & Hind Cycles wer taken-over by a common Act, earlier management was taken-over
1980	Bird & Co.	An Act of Parliament	Fall in production, losses since 1973-74, mismanagement forced Company Law Board to appoint Directors, Government Directors could not succeed, steep fall in turnover, unable to pay wages, fall in orders loss of credibility, large investment needed for putting it back on rails, accumulated losses of Rs. 5.68 crores, liabilities rose to Rs. 9 crores, was closed, taken-over essential for continuing production, produced vessels and machinery for basic and key industries.	0.7051	0.7812	7.847	4.28	2.83 and Rs.17 lakhs as management compensation	A premier Engg. company which formed a part of a group of companies. It hel shares in 21 companies in production, dis tribution, marketing & financ ing areas. Thes shares held by Bird & Co. were also acquired for preventing their mismanagement.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
34.	1980	Bengal Chemicles & Pharmaceuticals Ltd.	An Act of Parliament	Continued deterioration in working results (loss in 1975-76 Rs.34.80 lakhs 1976-77: Rs.1.1535 crores), Mismanagement, company requested government intervention. Industrial Reconstruction Corporation Loan on convertibility condition, Management taken-over in 1977. Affairs were investigated, very old plant & machinery.	0.7995	1.5517	2.1374	5.758	5.0204 and management compensation Rs.24000 p.a.	
35.	1980	The National Co. Ltd.	An Act of Parliament (No. 62 of 1980)	For proper management & Continuation of production, Management was taken-over under Sec. 18 AA of IDR Act 1951	0.9333	1.7057	3.3725	24.1013	10.04 (liabilities are to be met out of this amount), Management compensation of Rs. 10,000 p.a. to each)	
36.	1980	Alexendra Jute Mill Ltd.	"	"	0.27	-	-	-	3.536	
37.	1980	Union Jute Co. Ltd.	"	"	0.4100	-	-	-	4.6132	

(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1980	The Kn[illegible] Co. Lt.	"	"	0.765	-	-	-	4.8668	
1980	The Kin[illegible]son Jute Mills Co. Ltd.	"	"	0.7493	-	-	-	6.447	
1980	RBHU Jute Mills (pvt) Ltd.	"	"	-	-	-	-	0.1704	
1980	Sen & pandit India pvt. Ltd.	Consequential take-over as a sequel to take-over of sen-Raleigh	"	0.4965	-	-	-	~~0.4965~~ 0.2396	These five companies were subsidiaries of sen-Raleigh & except for (45), were all paid management compensation of Rs.500 p.a.
1980	Ancillary Industries (Lugs) Pvt. Ltd.	"	"	0.01	-	-	-	0.0131	management compensation of Rs. 500 p.a. each
1980	Ancillary Industries (Forgings) pvt. Ltd.	"	"	0.01	-	-	-	0.0144	"
1980	Ancillary Industries (Cranks) pvt. Ltd.	"	"	0.0094	-	-	-	0.0233	"
1980	Naskhali Machine Tools Ltd.	"	"	0.0846	-	-	-	0.0287	"
TOTAL				72.4613	87.1386	163.0183	263.8218	113.[illegible] excluding management compensation	

Sources:

1) Bombay stock Exchange Directory for various years.
2) Act of Parliament, Ministry of Law etc. G.O.I. for various years.
3) Bureau of public Enterprises: Annual Report on the working of Industrial & commercial Undertakings of the Central Government & public Enterprise survey.
4) Commerce Year Book of public sector various issues.
5) Annual Administrative Reports of various Ministries (Like Industry, Mines and Metals, Commerce etc.) for various years.
6) Department of Company Affairs, Indian Subsidiaries of Foreign Companies (From 31-3-1972 to 31-3-1977.)
7) Annual Reports of many companies.

NATIONALISATION OF GENERAL INSURANCE.

(A PART OF THE REPORT ON THE ICSSR PROJECT "NATIONALISATION IN INDIA'S NON-AGRICULTURAL SECTOR SINCE 1947.- A STUDY IN POLICY OPTIONS.")

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Nationalisation of General Insurance.

The Nationalisation of insurance business took place in two stages, separated by a period of seventeen years. When the nationalisation of life insurance took place in 1956, despite many demands and arguments for the inclusion of general insurance in the perview of nationalisation this branch of insurance was allowed to continue in the private sector. So much so that in the case of composite insurance companies, the general insurance business was left in the hands of private insurers. Two reasons were officially given for excluding general insurance from nationalisation. One, it was argued that the wrongs and malpractices in general insurance do not affect the ordinary citizens, they impinge on private traders, businessmen, industrialists, etc. Second, this exclusion was meant to reassure the private sector that take-over of life insurance represents no general stance against private enterprise as such.[1]

I

In section I, we examine the process of take-over of general insurance, including the law enacted for the purpose, the stated objectives and the compensation provisions, particularly their effect on the socio-economic content of the take-over. Part II is devoted to an examination of the alternative policy options and their working which may explain how it became necessary to nationalise general insurance. We conclude with an assessment of the significance of this take-over.

It was in May 1971, that the first preliminary step towards nationalisation of general insurance was taken when the General Insurance (Emergency Provisions) ordinance was promulgated.[2] The Ordinance provided for transfer to the government of the management of all undertakings of general insurers, Indian as well as non-Indian, who stood registered during six months prior to 17th May, 1971, but

excluding that of the general insurance business of the LIC. It provided for management compensation to the former management of the insurance companies which was at the rate of over Rs.30 lakhs per month to all the insurers taken together[3] for the period such management vested in the government. The management compensation amounted to Rs.6.60 crores.[4] The compensation was computed on the basis of one-twelfth of the average annual profits distributed during 1967, 1968 and 1969 or Rs.2.50 for every thousand rupees or part thereof of the net premium income of the undertaking of the insurer during 1969, which ever is greater. For all others, including foreign insurers the latter basis was used.[5] The ordinance was replaced by an act in 1971.[6]

The number of insurers whose management was transferred to custodians appointed by the government came to 107; of these, 63 were Indian and the rest non-Indian and the latter 38 were British.[7] The value of the assets of Indian insurers as on 31st December, 1972, amounted to Rs.319.13 crores and of the non-Indian insurers Rs.47.64 crores; i.e., a total of about Rs.367 crores. The paid up capital of 61 Indian insurers, whose balance sheets were reported, came to Rs. 13.91 lakhs.[8] It shows that the insurance controlled assets hundreds of times larger than their paid-up capital. The share capital plus free reserves for the Indian insurers (for 55 reporting in 1969) amounted to Rs. 32.71 crores.[9] Custodians were not appointed for four insurers and the authorised persons continued to discharge their managerial functions.[10]

The bill to convert management take-over into nationalisation (i.e., either shares take-over or take-over of

undertakings) was moved a year after in May 1972. The presentation of the General Insurance Business (Nationalisation) Bill, 1972 was delayed, it appears, in order to avoid possible complications over the compensation issue in view of the Supreme Court ruling in the Bank Nationalisation Case; maintaining that so long as article 31(2) contained the word 'compensation', the compensation provision of the law could be questioned a court of law. Thus the presentation of the nationalisation law on general insurance awaited the enactment of the Constitution (twenty fifth) Amendment Act, 1971, which substituted the word 'amount' for 'compensation'.[11] This amendment tended to rule out litigation over the issue of compensation. The general insurance nationalisation law was the first relevant law to follow this amendment.

The act provided for the take-over, i.e., acquisition and transfer to the Central Government of all the shares in the capital of Indian insurance companies and for the take-over of the undertakings of others, including foreign insurers.[12] A government company, the General Insurance Corporation of India was to be formed for the purpose of superintending, controlling and carrying on the business of general insurance with an authorised capital of Rs. 75 crores of which Rs. 5 crores were to be initially subscribed.[13]

The objectives of nationalisation of general insurance, as stated in the Act, were two fold :a) "to serve better the needs of the economy by securing the development of general business in the best interests of the community " and

b) " to ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment....... "[14] It was specifically asserted that the Act was legislated in order to give effect to the specific Directive Principles of State Policy laid down in clause (c) of article 39 of the constitution.[15] Thus it is clear that apart from the sector specific objectives of putting general insurance on a sound footing, consistent with the broader needs of the economy, this nationalisation was statedly meant to strengthen the anti-monopoly counter-vailing forces in the economy. The changed statutory context following the 25th Amendment to the Consitution was, at an abstract level, a helpful factor in this respect. We shall, at a later stage examine the de-concentration objective in terms of various provisions of the nationalisation law.

The Bill was referred to a joint committee of both the houses of Parliament. The Committee's main contribution consisted of making some amendments to the compensation provisions, particularly with respect to Indian insurance companies, the net effect of which was to raise the amount from about Rs. 33.03 crores to about Rs.38.05 crores. This extra amount of Rs. 5 crores was to benefit some 33 companies. 16
The compensation issue turned out to be very controversial and as many as six notes of dissent by 8 M.P. s. were appended.[17] Generally, there were four points of contention i) size of compensation amount which was considered excessive

by many who gave their notes of dicrent; ii) non-disclosure of the basis for computing the amount, particularly the discriminatory nature of the proposed amounts in favour of the foreign insurers vis-a-vis their Indian counterparts ; iii) "the last minute amemdment to the schedule of the Bill", specifying the compensation amounts, in order to raise the amounts given to insurance companies controlled by the large industrial houses as " a calculated surrender to the big business houses ";[18] and iv) the future set-up of general insurance business, with one corporation and four insurance companies, and the provision concerning the grant of right to central government to transfer the employees.

The joint committee showed concern at the delay in giving effect to the law andprovided a time-limit beyond which the implimentations of the Act may not be delayed. This was considered essential in view of rather heavy management compensation. For this purpose, it inserted the worlds "not being a day later than the 2nd day of January, 1973," in the definition of " appointed day".[19] The General insurance Corporation came into existence on 1st January 1973.[20] The general insurance business of the Life Insurance Corporation was also transferred to the General Insurance Corporation in terms of Section 5 of the General Insurance Business (Nationalisation) Act, 1972 (Act 57 of 1972) and am 'amount' of Rs. 2.81 crores was paid to the LIC.[21]

The compensation provision in the general Insurance law are very important, because first, the Act was enacted after the 25th Constitution amendment which tended to take away this question out of the purview of judicial review and did away with the necessity of just and fair equivalent view of compensation payment and second, the amount, of Rs.38.05 crores, following the provisions of Chapter IV of the Act and the Part A and B of the Schedule to the Act,[22] was widely considered to be very high.[23] Even the management compensation alone exceeded the total compensation given for the take-over of life insurance business which involved the transfer of a larger number of companies, with greater value of assets, business, and income.[24] The total (management plus takeover) compensation to general insurance companies amounted to about Rs. 45 crores, a sum nearly 9 times the compensation paid to life insurance companies. The take-over compensation of Rs. 38.05 crores consisted of Rs.2.706 crores for the Indian insurers and Rs. 7.352 crores for the foreign ones. We have already referred to the manner in which this amount compares with the paid up capital, assets and business of the general insurance companies.

The compensation principle was not disclosed ; Part A and B of the Schedule to the Act specified the amount to be given to each company.[25] The shareholders of Indian insurance companies were to be paid the compensation amount directly by the General Insurance Corporation. Except for

small shareholders, the rest are to be paid in three annual equal instalment and interest at the rate of 4 percent would be paid to them. The foreign insurer was to be given the amount in cash within three months of the appointed day. On an agreement amongthe majority of shareholders representing 2/3 of the value of the amount payable the amount may be paid to any nominated agency.[26]

Non disclosure of the basis of computing the amount invited advance criticism. However, a view was expressed that disclosure of the basis of computing the 'amount' might invite adverse judicial intervention and thus it was considered expedient not to disclose the basis of arriving at these figures.[27] It is worth noting that the danger of annualment at the hands of the judiciary increases the element of discreation and negation of open communication on certain crucial issues like the fixation of compensation amount.

Nevertheless, some attempts were made to uncover the implicit basis of determining the compensation amount. It was made out that the amounts to be paid to each of them. (Indian insurer) appear broadly to equal nine times the average of the dividends paid by each of them during the years 1967, 1968, and 1969. If, in the case of any company 9 times the average divident was found to be less than the company's paid up capital, the amount payable appears to have been fixed at the paid up capital of such company. Where an Indian

insurers was found not to have declared any dividend during the years in question the amounts payable to such company appear to have been fixed at their issued capital. In so far as the mutual insurance companies are concerned, the amounts to be given to them appear to be determined in a wholly arbitrary manner. The amounts payable to the foreign insurers appear to have been fixed broadly at 9 times net profit earned by them during the years 1967, 1968 and 1969.[29]

It is apparent that there was a discrimination between the Indian andforeign insurers regarding the basis for determining the compensation amount as well as regarding the mode of payment.[30] It was maintained that the compensation formula gave "preferential treatment to foreign monopolists or big business houses."[31] The foreign insurers received about 1/5 of the total compensation amount, the Indian insurance companies over 71 percent and the LIC and mutual and co-operative insurers a little less than 10 percent .

The compensation amount was considered excessive by some in view of the 25 th amendment to the constitution and inevitablity of an element of exproportion in an act of nationalisation. It was considered too much also in comparison to the compensation given to life insurance companies in 1956 as also because the beneficiaries from compensation being big business houses and in view of the anti-concentration objective for which nationalisation was undertaken. Even though the investible funds brought under

public control by acquisition of general insurance companies was Rs. 75 crores, this was mainly notional- because the funds were committed ; as much as 75 percent were invested in government approved securities under the social control over general insurance scheme of 1963. The amount of fresh accruals each year was around Rs.5 crores which was " less than the additional deposit growth of an ordinary branch of a leading bank.[32] Thus the compensation amount appears to be on the higher side in comparison to the size of the additional investible resources which became available for governmental control. It was pointed out that the general insurance business was a pigmy as compared to the giant which the life insurance business was.[33]

The payment of compensation was highly skewed. About 11 percent of large insurers numbering six (excluding LIC) accounted for 64 percent of the amount payable to Indian insurers, while 27 insurers, constituting about 45 percent of Part A received about 34 percent of the total compensation payable. As an M.P. pointed out, " There are 57 companies which are getting more than Rs. 10 lakhs (each) in comparison to 7 comapanies which are getting more than a crore (each). The minimum amount given is Rs. 896 and the maximum is Rs. 8, 20, 37,678 ."[34] Actually, in keeping with the stated objective of anti-concentration thrust, a scheme of graded compensation payment with a ceiling, was suggested by an M.P. in the Lok Sabha. It was pointed out

that "there are over 40 thousand shareholders of these companies who belong to the middle and lower income groups. 60 percent of these persons have invested in shares worth only Rs. 2,000 to Rs. 3,000 of their life's saving. The application of an undisclosed formula, presumably a certain multiple of three years average dividend, uniformally applied to all the Indian companies and their shareholders could not give preferential treatment to small shareholders.

Moreover, the compensation provisions were criticised for being arbitrary and discriminatory. It was pointed out that as a result of irrational compensation, one company gets 7 percent of its net assets, while another company gets 88 percent of its net assets.[37] The memorandum by the Indian Chamber of Commerce, Calcutta, on the General Insurance (Nationalisation) Bill, 1972 to the Joint Committee said, "while no uniform basis has been adopted, it appears that more efficient companies have been discriminated against. This is clear from the fact that the third group of companies with negative reserves have, in fact, been compensated for net worth whereas in the case of the other groups the amount of compensation is generally much less than the net worth.[38]

The compensation amounts originally proposed in the Bill evoked a strong reaction from the business circles. The memorandum, referred to above, maintained that "the schedule appended to the Bill indicates certain fixed amounts to be paid to the insurance companies nationalised by the Government

which have no bearing on (sic) the net worth of the companies which should be the correct basis of any compensation.[39] The memorandum was able to show that in some cases the amount payble fell short of paid up capital plus reserves. The revision which was intorduced at the Committee stage appeared to bring the amount payable on par with the paid-up capital.[40] Similar pleas were also made in the Parliament.[41] The amount was considered "as a whole grossly inadequate "[42] and it was suggested that " the payments to Indian insurance companies shall be 15 times the average net profits for the years 1969, 1970 and 1971."[43]

These pleas were based on the ground that since "the right to private property has not yet been abolished "[44] the expropriatory element should not be built into the compensation formula and , without discrimination vis-a-vis foreign insurers, it is the duty of the Parliament following the abrogation of judicial review of compensation, to grant such sums as are generally accepted as fair and just. Apparently, such pleas did not give much heed to the declared intention to use this law as an anti-concentration of income and wealth move. In so far as the originally proposed sums were enhanced, one may infer that the efforts at an upward revision of the compensation amounts were to a certain extent successful.

In these efforts at enhancement of the compensation amount, it was mentioned that the Insurance Act 1938, as

amended for the introduction of social control in 1968, specified the principle of compensation vide Section 52J. This amendement gave enabling powers to the government to take over general insurance companies and specified assets, calculated at market value (which may include the goodwill of the company) net of liabilities as the compensation principle.[45] Whatever was the intention in 1968 at the time this provision was made, it came handy to the insurers to argue that "so soon after the introduction of new section giving the basis of compensation, the principles enunciated have been completely ignored".[46] It may be noted that the scheme of social control over banking also brought in the issues of nationalisation on the basis of payment of compensation but without specifying the compensation principle. In any case, it is difficult to say what kind of factors and forces operated in determining the amount and mode of compensation. However, the fact stands out that in comparison to past practices and on other criteria mentioned in the proceeding parts, the general insurance companies, particularly the bigger ones and the foreign ones, received too liberal compensation. This acquired somewhat greater incongruity in view of the stated objective in acquiring these companies related to the constitutional mandate concerning prevention of concentration of income and wealth detrimental to common cause. The fortification made available by the 25th constitutional amendment was hardly availed of for restricting

the compensation liability, particularly, in view of the financial stringency faced by the government, except in doing away with the constitution of a Tribunal to which disputed compensation cases could be referred, as was the case in other cases of compulsary acqusition of companies or their undertakings in the past.[47]

It may follow that at least in so far as the direct and immediate countervailing effect of the take-over of general insurance business goes, the limited amount of investible resources transferred to direct public ownership and control (which may well be eroded to an extent owning to over half a million compensation claims settled every year by the general insurers).[48] and large sums paid to erstwhile owners of insurance companies, including non-Indian ones tended to limit the contribution in this respect. However, much was made of not disclosing the compensation formula. It was pointed out, as seen before, by an M.P. that a statement of the formula may again invite judicial intervention inimical to the Act.[49] Thus the government may have been pursuaded to pay a larger amount at least partly, in order to avoid difficulties in courts of law. In any case, the conclusion seems to follow that the compensation amounts compromised the undoubted long-term anti-concentration effect of the take over law.[50]

It is ironical that a person generally as unenthusiastic to public sector and nationalisation as Babubhai, M. Chinai, M.P.

concluded, in his note of dissent, that " the Bill is no more than the envionmental product which will always seek to prop up the image of the ruling class"[51] and "while (is) seemingly revolutionary, centres round force that seeks to achieve maximum publicity with minimum offence to shibboleths that are cleverly concealed "[52]. However, in so far as the gains which the insurers, both Indian and foreign, were obtaining from their command over these concernes were understated in published accounts' figures, as they were getting their main returns by malpractices and manipulations,[53] termination of their control was a factor contributing to the strengthening of counter-concentration forces in the economy.

II

It is appropriate that the examination of the law for nationalisation of general insurance is followed by some discussion about the alternative policy choices which were tried and/or discarded and how, in broader politico-economic terms, the nationalisation die was cast.

There was one single Act (enacted and amended in 1912, 1928 and 1938) under which insurance business , both life and general, were sought to be controlled and regulated. Thus, one finds that a dichtomy in the approach towards general and life insurance came about mainly with respect to the question of their nationalisation. In fact, many insurances companies were composite insuraers. We have seen in the preceeding the reasons assigned for adoption of separate approaches to the two branches of insurances.[54] If one

were to examine these reasons given for separating the nationalisation of life insurance from that of general insurance, it would be apparent that these were mainly concerned with the approach towards private sector in general. Too large sweeping a transformation of private property into public was feared to cause misgivings to the private sector. Given the role expected of the private sector, in the evolving strategy of industrialisation , such a step might have queered the pitch for what is called "investment climate." The then Finance Minister said, speaking on the LIC Bill, that the exclusion of general insurance was based on the consideration not to alarm the private enterpreneurs too much.[55]

The argument that malpractices in general insurance are of little consequence to the common masses and affect only businessmen, is not only trivial but rather week. If an industrial enterprise cannot successfully secure itself against various risks, it affects its workers, consumers, suppliers, creditors, shareholders, etc. quite vitally and directly. The enterprise may be of significance to the national economy and may cause a secondary round of adverse consequence on the general public owing to its inability to secure itself against a great variety of risks and hazards. Apparently, there was a cautions approach towards transformation of property relations during the mid-fifties. Given the linkages between control over the investible resources held by the general insurance companies and the growth of large industrial houses who contro-

lled the bulk of general insurance business, the take-over of entire insurance business, coming in the wake of the take-over of the Imperial Bank of India, would have adversely affected the availability of funds and surpluses to the large industrial houses. Such a clear and pronounced break in the nature of economic policies and approach was not something for which the ruling circles were prepared for in 1956.

However, general insurance is a business in which profitability is assured (except in times of abnormal national disasters) if it is carried on the basis of acturially sound tariffs, correct underwriting methods and proper and genuine assessment of claims. Given such an inherently profitable nature of this business, failures were largely owing to malpractices, unsound business principles and weak financial base. Hence the adverse consequences on general economy, owing to unsound general insurance were related to the ownership structure of the insurance companies. This business, operating in a healthy manner is an essential prerequisite in order to facilitate the survival of trading and industrial enterprises in the face of risks and unscertanities. Hence, opposition to the take over of general insurance could not go very far particularly among those businessment who were not tied up with insurance companies.

The analysis of the forces contributing to the nationalisation of 14 major commercial barks in 1969 tended to show the emergence of a configuration of political and economic

factors favourable to nationalisation. The ten-point programme of the AICC included nationalisation of general insurance and this became a specific plank in the Congress Party's election manifesto in 1971.[56] The low level of political support enjoyed by the ruling party as reflected in 1967 general elections, also made it accept relatively radical programmes for sharing up its political fortunes.[57] In any case, the take-over of general insurance at this stage when a large number of public financial institutions both at the Central and State level have came up and are eager to promote private investment was not likely to cause any stringency of financial resources for the private sector. Since the compensation amount was larger than the paid up capital and net-worth and had for a long time yielded returns, the loss of property too was unlikely to be considered to be of material consequence. Thus politically take-over of general insurance was an important part of the strategy to project a radical image of the Congress party.

The experience of control and regulation of general insurance was the same as that of life insurance ; in fact, the two were subjected to the same controls. Since general insurance was not taken over and malpractices, misdirection of investment, etc., persisted, along with the persistence of pressure for its nationalisation, the general insurance was brought under social control in 1968 in the same way as commercial banking.[58] The then Finance Minister stated that, " Government

had undertaken a detailed examination of the proposal for nationalisation of general insurance in all its aspects, including the possibility of achieving the objectives in other ways ——— the proposed measures (i.e. social control) are a result of this examination."[59]

The scheme of social control was to be implemented by a comprehensive amendment to the Insurance Act, 1938.[60] Its main features , as outlined by the Finance Minister, were as follows : In order to ensure fair premium rates, the existing Tarrif Committee, consisting of elected representatives of the insurers, was to be reconstituted with the Controller of Insurance as its Chairman who would have over-riding powers .

For ensuring " complete security " to the policy holders the existing voluntary code of conduct was to be made statutory and a solvency margin is to be maintained at 20 percent of the net premium income or Rs. 20 lakhs , whichever is higher by each insurer. In addition, the statutory deposit was increased from Rs. 3 Lakhs to Rs. 20 lakhs.[61] Weaker insurers lacking necessary strength will be given the facility to pool their resources by resort to group working who will maintain the solvency margin and statutory deposit as a single unit. This provision weakened the stringency of the new provisions with respect to smaller insurers.

In order to reduce private concentration by the use of general insurance funds, which were of a rather smaller

magnitude compared to those of life insurance or banking, approved securities provisions were extended to general insurance . Limits were also placed on the maximum investments in the shares of individual companies. Provisions about maximum shareholding and voting rights in insurance companies, at 10 percent and 5 percent respectively were introduced. The idea was to prevent interlocking between general insurance and other companies.

In order to prevent malpractices and to "ensure that only financially strong units remain in the field " and "function on sound and healthy lines,"[62] the Controller of Insurance was given greater powers of control and supervision. Regular inspections, surrise inspections and raids, appointment of directors or observers on the boards of the companies, power to scrutinise reinsurance contracts with a view to conserve foreign exchange and provision of prior permission in order to remove the principal officers of insurance companies, were the major components of enhanced and tighter administrative controls introduced under the new scheme.[63]

This was a fairly rigorous, comphrensive and specific scheme of regulating general insurance business. Some of its results were significant in so far as they resulted in improved profit-making by the insurance companies.[64] This can be taken to mean that there was a considerable frittering away of the resources which was plugged by the social control scheme. The effectiveness of any such scheme,

as the experience with banks showed,[65] can only be limited. The preventive aspects can go a certain distance, as the increase in profits may be taken to indicate, but the positive aspects pose a far more intractable problem. Probably owing to these limitations, the Finance Minister recognised that "Notwithstanding these provisions, there may be insurers who may continue to be weak or whose working is unsatisfactory."[66] In order to deal with such cases, a scheme of amalgamation was proposed. Probably, in order to produce requisite deterrence, it was also proposed that recalcitrant units may be acquired on payment of compensation by a government notification with the amount of compensation being reviewable by a Tribunal.[67]

While some companies could improve their profits under the social control dispensation, it could not make much impact on the smaller insurers. For instance, in 1971, only 29 of the Indian insurance companies were able to pay dividends to their shareholders and a large majority of them were accumulating losses.[68] The main reason for the limited success of social control was its inability to overcome the fragmented nature of general insurance business in India. For the kind and magnitudes of general insurance business obtaining in India, there were far too many companies, some of them being unviably small. Then, this kind of a structure of the business prevented the growth of insurance business commensurate with the potential existing in India. "General insurance has chosen to remain

confined to cities and large towns, because it has not moved out to the common man------------Agriculture in this country is a gamble of monsoon. But who is there to cover crops against this risk ?........... Several insurance companies have been insuring sugar-cane stocks against fire. This could be extended to standing crops, not only commercial crops, but also to foodgrains, may be in a selected area to start with."[69] Thus social control, even with its limited effectiveness in curbing unethical practices, was ill equipped to bring about expansion commensurate with the needs of a growing economy.

The smaller companies were not prepared to yield ground by agreeing to amalgamate. Arguing that the social control measure was unlikely to have worked, it was maintained that its scheme of amalgamations could not succeed owing to resistance by the smaller companies. The reason for reluctance was that "the top management of the smaller companies loathed the idea of losing their positions of supremacy, power and privilege and the formal and informal perquisites that they enjoyed."[70] In this connection, the case of Ruby General Insurance Co. may be reported to illustrate the kind of personal advantage which was derived by the management by means of manipulations. According to the Auditor's report given to the controller of insurance in 1960, the books and accounts were systematically manipulated for showing a rosy picture, suppressing claims, payment of extra commission and the company has been very liberal in settlement of claims, especially

with the allied concerns of the management.[71] Thus, if consolidation of the structure of insurance business was to be brought about, there was no alternative to nationalisation.[72]

The smaller insurance companies (about 40) had a premeium income of less than Rs. One crore and had "neither the capacity to compete with the larger units nor the bargaining power to negotiate low rates for reinsurance for which they were invariably dependent on the larger Indian or foreign companies".[73] The existence of a number of small insurers giving rise to non-viable fragmented structure of general insurance business can also be inferred from the fact that " 28 companies covered 24 percent of the business of Indian companies".[74] The inadequate growth of general insurance was despite the fact that it has grown quite fast, in fact, faster than the rate of industrial output over 1961 to 1971 as can be seen from the fact that the index number of general insurance business and of industrial production with 1961 as base increased in 1971 to 202 and 174.6 respectively.[75] The fragmented nature of the insurance business was a significant factor contributing to lack of realisation of its growth potential. In fact, owing to their small size, reinsurance with larger foreign companies used to be a necessity costing them about 25 percent of their premium income, which was, more over, paid in terms of foreign exchange.[76] In any case, demonstration of good profit-earning capacity by some insurers in the wake of the 1968 scheme need not necessarily argue a case for permitting private sector

to survive in general insurance. It can also be taken to indicate viability of this branch of business, when it follows the rules of the game defined by the social control scheme and thus holds a promise a fortiori to become a going proposition under public ownership.

The takeover of general insurance was not very significant in quantitative terms in an overall perspective, as was brought out by Morarji Desai while announcing the introduction of the scheme of social control.[77] Therefore, he concluded that "the resources available from general insurance are of such a minor nature that issue like utilisation of these resources for planned development, and appropriate policies for this purpose hardly arise."[78] However, the important issues were concerning widespread and effective coverage of all the risks other than life which a healthy, viable and expanding general insurance business can provide, particularly to a developing, industrialising country. Since the structural limitations of this business in India were limiting its expansion, despite the inherent potential in the economy and since this was turning out to be intractable by administrative legal controls, voluntary code of control and a package of measures named social control, its nationalisation appeared to be the answer worth trying. The fact of its relative unimportance to private sector as, e.g., borne out by total annual profits of about Rs. 3 to 4 crores and small size of the control afforded by it over investible resources, made it a

good candidate for take-over with the least offence and harm to the capitalists, particularly the larger ones.

Even, with respect to foreign insurers, the majority being British,[79] there began to appear forces to weaken resistence to their take-over. Michael Lipton has argued that owing to Indian-owned insurance operating in U.K. in 1964 and 1967, India had a net surplus on the insurance account. But by 1969, this has turned into a net deficit. Thus the foreign exchange drain caused by the operation of foreign companies, became a matter of concern and "might partly explain India's nationalisation of U.K. non-life insurance companies in India."[80] In an overall perspective, however, foreign investment in non-life insurance was meagre and was not likely to make a reckonable difference to the overall position of foreign investments in the Indian economy. This "political decision"[81] as, indeed, all such decisions are, was more political than similar other decisions in at least one sense i.e., its economic impact was likely to be limited, and not too injurious to private enterprise, while its political dividends in terms of meeting electoral pledges of a radical variety were fairly pronounced. This nationalisation was a kind of last flicker of the apparently radical trail blazed during the first half of 1970s. It was a transformation of property relations with its undoubted long-term significance but such a one which causes the least hurt or gives the least offence to the economically powerful, who continue to occupy an important place as agents and partners of growth by means of national planning.

Notes and References :

1. "General insurance is a part and parcel of the private sector of trade and industry and functions on the basis of a year to year basis . Errors of ommission and commission in the conduct of its business do not directly affect the individual citizen." Finance Minister's Boradcast on 19 January, 1956. Reproduced in Ray, R.M., Life Insurance in India, IIPA, New Delhi, 1982. p.214. He went on to odd "we have not been influenced by doctrine dislike of private enterprise in reaching our decision. Were that so, we would not have left alone the other big sector, the general insurance ". Ibid. p.216. Even as as late as in 1960, the Government rejected the plea for nationalising General Insurance. Then, Deputy Finance Minister gave the following grounds for the rejections (a) "There are no resources to any significant extent-in this business " (b) " The profits in this business are slight ". (c)"The evils in this business to a large extent may be found in some form or the other elsewhere also. We cannot go on nationalising once after another on this ground ". Quoted in "General Insurance Takeover : Background and implication" by Commerce Research Bureau in Commerce, May 22, 1971 V. 122. No.3126, P.948.

2. GOI, Ministry of Finance, Report, 1971-72, p.32.

3. Lok Sabha Secretriat, Report of the Joint Committee, The General Insurance Business (Nationalisation Bill) 1972. p.xiii.

4. Shri Somnath Chatterjee, M.P., in Lok Sabha Debates. Fifth series dated 18-22 August, 1972, Column 230.

5. Commerce , op.cit, p. 948.

6. GOI, Ministry of Finance, Report 1971-72, p.32.

7. Lipton, M. Loc.cit.

8. GOI, Indian Insurance Year Book, (IIYB), 1973.

9. Indian Insurance Year Book, 1969.

10. Ministry of Finance, Report 1971-72, op.cit, p.34. The Four insurance companies are : Oriental Fire and General Insurance Co.Ltd. Indian Gaurantee and General Insurance Co.Ltd. Indian Re-insurance Corporation Ltd, and Jupitar General Insurance Co. Ltd.

11. Ramkistayya, V., The problems relating to compensation on Nationalisation of Industry (A study based on Indian Experience 1947-76) Unpublished Ph.D. Thesis of Osmania

University, April, 1977. p.272.

12. The Act (No. 57 of 1972), Chapter II.

13. Ibid. Chapter III and the schedule.

14. Ibid. Section 1 and 2.

15. This directive principle says, that the state shall secure that the operation of the economic system does not result in the concentration of wealth and means of production to common detriment.

16. Report of the Joint Committee. op.cit. note of dissent by Patel, H.M.m p.xi.

17. Ibid. pp.X to XXX.

18. Ibid. Note of dissent by Sardish Ray and Tridib Choudhary p.x.

19. Ibid. P.vi. The note of dissent by Surindra Mohnty (op.cit, p.xii) pointed out the need to fix the appointed day earlier in view of huge management Componsation and suggested that clasue. I enabled the Government to do so.

20. Government of India. Gagette Extraordinary Part 2 Section 3 , July-December, 1972, p. 1979. Ministry of Finance, Deptt. of Revenue and Insurance notification No. S.O. 724 (E) dated 24th Nov. 1972.

21. Vide Ministry of Finance Deptt. of Revenue and Insurance notification No. S.O. 6 (E) dated 1st January, 1973 and schedule to the Act.

22. Section II of the Act.

23. Out of 6 notes of dissent four considered this sum to be excessively high. Shri Babubhai M. Chinai and Sh. H.M. Patel pleaded for still higher compensation. They are well-known for their pro-private views, the former was himself an industrialist and the latter was an important member of the Pro-business Swatantra Party.

24. 107 companies, Indian and foreign engaged in general insurance business are to be paid Rs. 38.23 crores compared to Rs. 5 crores paid to 256 companies in 1956. Indrajit Gupta M.P., in Lok Sabha Debates, op.cit. column 242.

25. The Act Schedule 'A' and 'B' in Joint Committee Report op.cit, pp. 16-18.

26. The Act Sections 13 to 15.

27. As Stephen, C.M., said in the Lok Sabha, " The Government should have told us how they arrived at these figures, They have not cared to tell us the particulars. " Lok Sabha Debates, 1972. Vo.18 No.20 Colum 251. Patel H.M., called the basis on which additional amounts were given at the Joint Committee stage "wholly inexplicable, and arbitrary ". op.cit. P.XI. Making this point, Vasant Sathe, M.P., said, "some people , some vested interests precisely want the principles splet out so that they can later go to the SupremenCourt and say : 'Look, this has not been done in accordence with the principles and there, legislation is bad and strike it down." Lok Sabha Debates, op.cit, Col.279. The Finance Minister, however, made a very guarded statement about these principles, "The question of divided, the question of assets minus liabilities, questions of profitability, all these factors had to be taken into account while fixing a certain amount Ibid. column 292.

28. Report of Joint Committee. op.cit., p.xi.

29. Many MPs. in the cause of Parliamentary debate, op.cit, coulumns 266-270 and in the Joint Committee, op.cit. pp. xi, xii, and xvi pointed to this aspect, Patel, H.M., said "It is difficult indeed to understand why it is been decided to discriminate against our own nationals. Never before has a country been known to favour foreigners as against its own nationals ". p.xii.

30. Ibid. p.x.

31. Parimoo, J.N.. (The Economics of Nationalising General Insurance " Yojana, May 16, 1971. p.11)

32. Idem.

33. Lok Sabha Debates, op.cit. Column 270-275 (speech by Shanbai Dayal Singh 242-250) speech by Indrajit Gupta.

34. Ibid.

35. Note of Dissent by Chinai, Babubhai, M. op.cit. p.XV.

36. Lok Sabha Debates, speech by NKP Salve, p. cit. column 237-242. Also Joint Committee Report, op.cit. p.xii.

38. Memorandum by Indian Chamber of Commerce, Calcutta on the General Insurance (Nationalisation) Bill, 1972 (memo), para 2.

39. *Idem.*

40. See note 29 above.

41. Lok Sabha Debates *op.cit* . Patel H.M. Columns 275-277. Agarwal V. Columns, 266-270 Desai,.D.D. Columns 265-287.

42. Joint Committee Report, *op.cit* P. xiiiv.

43. *Ibid.* P. xvi.

44. *Ibid.* p. xii.

45. Memorandum of the Indian Chamber of Commerce *op.cit.* para 3.

46. *Idem.*

47. *Idem.*

48. Parimoo, J.N.. *op.cit.* p.11.

49. Sathe V. in Lok Sabha , *op.cit* . Column 279.

50. Such an anti-concentration affect follows from the fact that when general insurance business grows out of business interests as tied business, then it serves monopoly interests. The sub-ordination of insurancebusiness to the commercial and industrial interests adds to its power and propensity to go in for malpractices.

51. Joint Committee Report, *op.cit.* p.xiv.

52. *Ibid.* p.xviii.

53. The Insurance Companies are owned or sponsored generally by big business houses. There is a belief that these business houses have been getting large amounts as commission under the counter." Parimoo, J.N., *op.cit.* p.11.

54. See note no.1.

55. See, note 1.

56. Chavan, Y.B., said in Lok Sabha that the election Manifesto for 1971 elections, the Congress Party Committed itself to nationalisation of general insurance. Thus, the act was a fulfilment of one of the important promises given to the people. Lok Sabha Debates, *op.cit.* columns 167-169. In the New Delhi Session of the AICC in June, 1967, the nationlisation of general insurance was included in the Ten-point economic programme. *Commerce*, *op.cit.* p.948.

57. It was suggested, " Perhaps, the actual timing was, at least in part , influenced by the reverses of the ruling party in the election to the New (sic) Delhi Corporation". Idem.

58. Lok Sabha Debate, Fourth series Vol. xi-00-30, Column 9291-9295.

59. Ibid. col. 9291.

60. Ibid.

61. For these carrying on marine insurance only the deposit was raised from Rs. 10,000 to Rs. one lakh.

62. Ibid column. 9294.

63. Idem.

64. According to Parimoo, op.cit. p.11. profits have zoomed after social control was imposed in 1968. According to Babubhai M. Chinai, "After 1968, the insurance companies have been doing better and their performance was much better than in the previous year ". Joint Committee Report op.cit. p.xvi.

65. See, Chapter on Nationalisation of major commercial banks.

66. See, Lok Sabha Debates, op.cit. column 9295.

67. Idem.

68. "General Insurance has Nationalisation Worked " in Business India July 23- August 5, 1979, p.33.

69. Parimoo, J.N.. op.cit. p.11.

70. Business India, op.cit. p.38.

71. Auditor's Report on Ruby General Insurance Co..Ltd., (dt. 4-3-1960) from S. Ghosh and Suresh Mathur, Charted Accountants to Shri. S.K. Vaiyarpuri, Controller of Insurrance) (Memo) p.158. For details see pp. 8-13, p.95, pp.99-111, p. 119-136, pp.87-91.

72. Business India. Ibid. p.33. Quoting the view of G.V. Kapadia, GIC' s chairman.

73. Idem quoting V.C. Vaidya, Chairman and Managing Director of New India Insurance Co.

74. Memorandum by General Insurance (Nationalisation)Bill, 1972 submitted to the Joint Committee of Parliament by 8 Insurance Companies (like National, Ruby General, Howrall, Hindustan General, Calcutta Insurance, Concord of India, etc.) p.2.

75. GOI, Controller of Insurance, Indian Insurance Year Book, 1972.

76. Business Indian op.cit. p.35.

77. "The fund available for investment with general insurance companies are modest and amount in the case of Indian to only about Rs. 50 crores apart from another Rs.10 crores already invested in Government securities. The annual increase is of the order of Rs. 5 cores. This is in contrast to life Insurance where the investments are about Rs. 1,000 crores and the increase annualy is over Rs.100 crores. The profits in general insurance after tax are now only about Rs.3 to Rs.4 crores, and if the premium structure is rationalised, would be even more modest." Lok Sabha Debates, op.cit col.921.

78. Idem.

79. Of 106 insurers , 38 companies in 1971 were British-owned. Of the gross premium income written, 17 percent was by foreign companies, of which seven-tenths was by British Companies. Lipton M, The Erosion of a Relationship : India and Britain since 1960. OUP , London, 1965. pp.88-89

80. Ibid. pp. 76-77.

81. As termed by Shri. Gujaji, B.P. Secretary, Bombay Chamber of Commerce and Industry. Business India op.cit. p.33.

NATIONALISATION OF OIL COMPANIES.

(A PART OF THE STUDY ON NATIONALISATION IN INDIA)

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Gradual take-over of the oil industry in India is among the more important acts of nationalisation as it covers the entire oil industry and involves the end of foreign monopoly in an area of critical importance to the national economy. In Section I, we discuss the legal process of transfer of oil industry to the public sector, the size of take over and issues related to compensation to erstwhile owners. In the following section, we analyse the salient features of the growth of oil industry in India in order to highlight the need for public intervention, its various forms and the results they produced . It is in this context that we try to gauge the changing stances of public policy towards the industry. It is throught an analysis of the interaction of the developments in the oil industry, their relationship with the economy, the impact of general economic changes on the fortunes of the industry in the context of the changing energy needs and compulsion of the Indian economy and various public policies regarding oil that we hope to understand how and why the oil industry was nationalised.

I

Nationalisation of petroleum companies in India involved foreign companies which have dominated this industry from its earliest days.

The first step in this direction was taken in 1974, when the successful negotiations between the ESSO Eastern Inc. and the Government of India over the former's proposal for the acquisition of its share capital by the latter[1] was followed by the enactment of the ESSO (Acquisition of Undertakings in India) Act, 1974 (Act No. 4 of 1974).[2] As a result the undertakings in India of the ESSO Eastern Inc, were vested in the Government of India with effect from March 15, 1974.[3] This company was controlling the oil refinery at Trombay, Bombay and Lube India.[4] Thus on 15 th March , 1974, the Government of India acquired the entire marketing assets of ESSO Eastern Inc. The Government also acquired additional 24 percent share of Lube India Ltd.[5] In the year 1974, another company, Indian Oil Blending Ltd. - a joint venture of Indian Oil Corporation and Mobil Petroleum Co, U.S.A., was brought under public sector by termination of the collobration agreement and acquisition of the balance of 50 percent shareholding by IOC. Thus IOBL became a wholly-owned subsidiary of IOC.[6]

The refinery company was registered in India and could be acquired by an executive action without the authority of a specific legislation. It was clarified by the government

spokesman that in order to take-over the assets and business of a company not registered in India (which was the case for the Esso Eastern Inc.'s marketing operations) a specific law of the land is required.[7] The refinery and marketing assets of this company were merged on 15th July 1974 to form Hindustan Petroleum Corporation Ltd.[8] For the refinery, the Government was to pay a total repatriable amount of Rs.18 crores in instalments, with 6.5 percent tax free interest on outstanding amount of compensation. The total amount payable was to be of the order of Rs. 24 crores.[9]

Esso was allowed to retain 26 percent of the shares, though the management was brought entirely under the control of a company wholly owned by the government of India. Esso was allowed to retain 26 percent shareholding in the marketing company in order to continue to obtain oil supplies from sources controlled by Esso and at somewhat lower rates.[10] It was stipulated that only after 7 years the nationalisation of the company will be completed by taking over the remaining shareholding.[11] However, just after two years, on 1st October, 1976, Government of India acquired the remaining of 26 percent equity held by Esso and the successor company, Hindustan Petroleum Corporation. became a fully-owned government company.[12]

Prior to bringing Esso under public ownership, as a part of the policy of expansion of public sector in the petroleum industry, Indo-Burma Petroleum company (IBP) was made a subsidiary of Indian Oil Corporation (IOC) in

January, 1970 by acquisition of 59.66 percent of the former's equity capital by the latter. In order to organise IBP as a separate public undertaking, the IOC sold its shareholding of about 6 lakh shares, at a book value of Rs.75.29 lakhs to the government of India in 1972. The IBP had acquired controlling interest in Balmer Lawrie Company Ltd. As a result, the government acquired management control in the following subsidisies of Balmer Lawrie [13] :

1. Bridge and Roof Co. (I) Ltd. (a construction company),
2. Steel Containers Ltd.,
3. Industrial Containers Ltd., (both Barrel manufacturers),
4. Biecco Lawrie Ltd. (manufacturer of transformers and switchgears).

The next step in acquiring foreign oil companies (Indian capital was not permitted to enter this field, which in terms of the Industrial Policy Resolution , was a part of schedule A industries, reserved for the state) [14] was the take over of Burmah Shell in 1976 in terms of the Burmah Shell (Acquisition of undertakings in India) Act, 1976.

The Act brought about the acquisition and transfer to GOI of the rights, title and interest of the Burmah Shell Oil storage and Distributing Company in relation to its undertakings in India.[15] Simultaneously, the Burmah Shell refinery company was also taken-over and the assets of the refinery and marketing companies were merged to form to begin with Bharat Refineries Ltd, which was given the name Bharat Petroleum Corporation Ltd. in 1977.[16]

The Burmah Shell take-over law was enacted for the same reason as the Esso law, viz., for affecting the take-over of the assets and liabilities of a company registered abroad. This too followed the conclusion of an agreement between the GOI and the principals of Burmah Shell.[17] Even after a negotiated transfer, the take-over of the marketing and distribution operations of Burmah-Shell could not be affected simply by purchases of assets for two reasons. First, it was a company not registered in India. Second, the transaction involved the transfer of both assets and liabilities and to take care of of the liabilities[18], it was necessary to enact a law. The terms of the transfer, including price of compensation, were decided through negotiations.[19]

With the takeover of Burmah-Shell, the government acquired control over 95 percent of the petroleum industry and only Assam Oil Co. and Caltex remained under private foreign control.[20] Negotiations were initiated for the purpose of completing the nationalisation of oil industry and in 1977 the law for acquisition of shares of Caltex Oil Refining (India) Ltd and of the undertakings in India of Caltex (India) Ltd. was passed.[21] This take-over , too was based on the terms arrived at through negotiations and formed a part of the aggrement between the government and Caltex. With this, 99.9 percent of the Oil industry, except for tiny Assam Oil, became a part and pacel of the public sector.[22]

It may also be worthwhile to point out that the three

international oil giants had set up three refineries in India during the early fifties under special aggrements with the Government of India. While Burmah-Shell and Esso signed the aggrements in 1951, Caltex did so in 1953.[23] These companies started their marketing operations in India much earlier, viz., in 1921, 1933 and 1937 respectively.[24] The agreements had provided for guarantees against nationalisation for 25 years from the commencement of operations and reasonable compensation for nationlisation thereafter.[25] These refineries went on stream in 1956, 1954, and 1957 respectively.[26] Thus, in terms of refineries aggrements, these companies had gaurantees against nationalisation upto 1981, 1979 and 1982 respectively. It can then be inferred that the actual take-over of the assets and liabilities or shares of these companies did short work of a major condition agreed upon by the government. But the f act that their transfer to public ownership and control was based on a negotiated settlement and in some cases the companies themselves offered to withdraw from the Indian scene indicate the special character of these nationalisations. Some members of Parliament raised this question and held that "it is neither nationalisation nor take-over". According to this view, "it was a negotiated purchase ."[27] However, negotiated purchase is also a method of nationalisation.

True, in some cases a legal enactment was resorted to for bringing about the transfer of assets and liabilities or undertakings of these companies. This was a legal requirement flowing from the need to take-over the assets and liabilities

of companies registered outside India. The transfer of ownership of productive assets from private hands to public (may be along with liabilities) and their subsequent operation and control under public auspices are essential features of an act of nationalisation. The fact that the consent of the former owners and controllers was obtained along with an agreement on the terms and manner of the transfer (including the question of size of 'conmpensation', and its mode of payment, i.e., its instalments, interest on outstanding amounts and in the form of foreign exchange) do not take-away the nationalisation character of the step of bringing the oil companies into the fold of thepublic sector. It is also important to note that through these acts, an important condition of the past aggreements (i.e., 25 years guaranteed embargo on nationalisation) was broken. Agreements on the take-over issue became essential and understandable in view of the obligations entalied in terms of the agremments, which were treated as 'international agreements' by the Government.[28]

Thus the fact that the terms of transfer to public ownership were decided through negotiations and mutual agreement, that some of the firms themselves offered to withdraw and the compensation amount can be treated as purchase price do not compromise the fact that private productive assets were acquired by the public agencies for continued operation. This is not to deny that when compensation happens to be equal to purchase price the distinction between setting up a new unit under public sector and nationalisation gets

blurred. However, since an operating private units is replaced by a public one, there is reason enough to treat such an acquisition as nationalisation. Hence the winding up of foreign oil companies in India may be treated an act of nationalisation in terms of the concept we have used in the present study. These take-overs were based on a set of objectives related to national economy and policies. The common point of variously worded objectives, as contained in the nationalisation laws, was to ensure co-ordinated distribution and utilisation of petroleum products to surbserve the common good.[29] One may suggest that the existence of a stated public policy objective motivating such transfers also goes to enable us to treat these transfers as nationalisation.

Thus, there is hardly any basis for not regarding the acquisition of the petroleum industry as nationalisation. The factors which are supposed to put a question mark on considering these transfers as nationalisation, go, in fact, only to define the socio- economic content and character of these nationalisations. Various nationalisations may have different socio-economic meanings and there is hardly any uniqueness about this aspect of a nationalisation move.

With these steps, over 99 percent of the oil industry, (except Assam Oil Co.) came under the public sector. The size of the take-over can be seen in terms of the Table given below :

Size of Take-over: Petroleum Industry

(Rs. Crores)

		PUC	Network	Assets	Sales	Compensation
1.	Esso	3.00	15.76	28.07	50.39	Rs.18 crores for refinery * 2.50
2.	Burmah shell	14.54	15.80	21.13	5.[illegible]2	9.25 (purchase price for refinery) 27.75
3.	Caltex	10.50	29.14	22.45	61.45	13.00 **
	Total	28.04	60.70	71.70	117.36	70.50

* With interest on outstanding sums it will amount to Rs. 24 crores .

** With tax on interest and capital gains tax this amount was said to become Rs.20 crores by an M.P.

Source : Annual Report of the companies concerned .
Compensation from the Acts and Annual Reports of Ministry of Chemicals and Petroleum (various issues) .

It can be seen that the total compensation amount exceeds the paid up capital for the three groups taken together. However, for Esso, PUC was a little more than the compensation amount. At the same time it may be observed

that while the networth is almost equal to the compensation amounts, the book value of assets exceeds the amount paid for purchase of shares and acquisiton of undertakings. The highest amount was received by Burmah-shell. The amounts were paid according to a mutually agreed schedule of instalments, in terms of foreign exchange. The amounts carried interest, which was tax free.

There was a lot of criticism of the government's decisions on the compensation issue. Members of Parliament, both from the ruling party and the opposition, considered the compensation amount excessive and unwarranted. Many reasons were given for this view. For one things, it was pointed out that if the value of the assets, net of depreciation, are taken into account, or the average working life of such plant and equipment is considered, one would find that the bulk of machinery of Esso installations were more than 10 years old.[31] One member of Parliament went to the extent of saying that "huge junks" are being acquired[32]. In the case of Caltex, the Minister told the Lok Sabha that written down value of assets was the basis of compensation.[33] It seems plausible to believe that on this criterion, Esso and Burma-Shell would have received much less than what they succeeded in getting. Then, these companies had depleted their resources in India by excessive repatriation. It was pointed out that Burma-Shell's investment (i.e., share capital plus reserves plus surplus) which stood at Rs.17.70 crores in 1969 was reduced to Rs.14.54 crores on the eve of nationalisation. Similarly,

Esso investment, which was of thevalue of Rs.21.20 crores in 1969 was reduced to Rs.16.80 crores in 1971.[34] It means that sensing the changing for tunes for their Indian businesses, these companies started moving out theircapital from India. Whether fixation of amount took note of this fact is not clear.

Then, the foreign oil companies were, in the few years immediately preceding take-over , making substantial remittances on account of dividends by drawing heavily on their reserves, which were built up on past profits.[35] It was pointed out that these companies have already remitted sums many times higher than their original investment- repatriations which were put at Rs.1040 crores during the last 14 years.[36] Some companies also started selling their machinery and plant.[37] It was argued that when such a huge amount is paid, the very purpose of nationalisation is defeated.[38] It is clear that these companies could foresee their withdrawal from India and they tried to extract as much as they could.

For the government, what seemed to have mattered was the saving which was likely to occur in terms of continued foreign exchange drain on account of repatriations and excessively highly priced curde. The need to terminate these inequitous agreements too couldnot have been insignificant. For bringing about a mutually agreed withdrawal, such compensation amounts might have been considered inevitable. Given India's continued use of foreign capital and enterprise

within the broad framework of planning and policies, unilaterally determined compensation might not have been feasible and prudent in a wider sense. Thus, the criticisms of the compensation amount and other terms of take-over were based on an altogether different perspective of development process and the role of foreign capital.

The petroleum industry as a whole has been gradually brought under public ownership and control.[39] Its take-over also brought about consequential take-over of some companies in some other industries, like construction, barrel, transformers and switchgear manufacturing. The take-over of the oil industry gave the government control over a healthy and vibrant sector, unlike many other cases in which sick units or industries were nationalised. This is also the case of a nationalisation decision which has been concerned exclusively with foreign private capital in India. Since this take-over was not to mark a general change of approach to private foreign capital, but was based on the specifics of the industry care was taken in negotiating the terms of the take-over to see that it does not create a general scare to discourage the inflow of foreign investments to India.

The decision to nationalise the oil industry in gradual stages may be understood in the context of the salient features of the history of oil industry in India, particularly with respect to changing stances of public policy towards the industry. Hence in the following section, we go into the evolution of oil industry and public policy towards it in India.

II

Not only on the eve of independence, but right upto 1960's the production, refining and marketing of petroleum and other products in India was an exclusive preserve of some international oil companies,[40] which were important members of the international cartel, known as 'Seven Sisters',[41] Except for the production of a small quantity of crude at Digboi in Assam (its 1948 production was 2.5 lakh tonnes) under the control of Assam Oil Company (a subsidiary of Burmah Oil Company) which was refined by its own refinery with an annual capacity of 0.50 tonnes.[42] Indian petroleum production and marekting were based overwhelmingly on imports, under the control of foreign companies.[43] The Burmah Oil Company, the standard vaccum Oil Co. and Caltex entered the Indian market in 1921, 1933 and 1937 respectively. Although a few oil firms were also engaged in marketing of oil products in India, Burmah Shell, along with its small subsidiry , the Assam Oil Company, dominated the Indian market for mineral oils. In fact, the then British government permitted oil companies from the U.S.A. into the Indian market only gradually and as a result of changed balance of power in the world economy.[45] "When India achieved independence, oil, more than any other sector, was the weakest link in our economic structure".[46] During the colonial period, there was no separate industrial policy and the British government

left the oil industry and trade to the care of private foreign, mainly British, firms. They did not go in for exploration and setting up local refining capacity. Thus, there was hardly an oil industry , nor was any oil policy, except, of course, the general one of protecting and promoting British interests.

So much so that on the complain of dumping of cheap Russian poil in India, the colonial government appointed a Tarriff Board in 1928 to examine the question.[47] Unde such a dispensation, there was little wonder that the recommendation of the Chairman of the Tariff Board for setting up an indegenious oil refinery industry, based on imported crude, remained a cry in the wilderness.[48] Thus, the Indian economy was dependent at the time of Independence on imported oil, marketed by three international giants which had through successive compentitive bouts, cartelised the oil industry.[49] The colonial government showed preference for the interests of Burmah-Shall and tried to help it vis-a-vis other companies and went to the extent of taking over the installation of Western India Oil Company in 1941 (probably the only case of take-over during the British period) under the pretext of war needs. It was after independence in 1949 that this company was revived.[50] Also, India had to build its national oil industry from the scratch in the face of heavy odds.[51]

Setting up of oil refineries in India was considered necessary for many reasons. The nationalisation of Abdan

refinery in Iran in 1951,[52] generally spurred a trend of setting up oil refineries in consuming centres. Refinery construction became an urgent priority on account of growing demand for oil, rising foriegn exchange bill on this account, the need to have a greater degree of independence of imports, particularly, in view of strategic considerations on account of uncertainty of oil imports in times of hostilities. The setting up of refineries at home was considered an important step towards national self-sufficiency. Erection of a synthetic oil plant and development of a power alchohol industry were considered as alternatives to construction of oil refineries in the country. However, none of these alternatives was considered superior to setting up of domestic oil refinery capacity.[53]

A major decision regarding the oil industry in India was taken in 1948 when the Industrial Policy Statement was approved. According to this statement the future development of mineral oils was to be the responsibility of the state except where, in the national interest, the state finds it necessary to secure the participation of private enterprise subject to usual controls and regulations.[54] The 1956 Industrial Policy Resolution also placed mineral oils in Schedule A, as exclusive state responsibility.[55] Indian private business did not show much intention of entering oil industry, as this was considered by them to be one of "those industries which are not pursued ny Indian nationals even after due notice by the Government", and "where there are difficulties of obtaining technical

know-how, etc.[56] Thus the government policy option regarding oil was restricted to either public sector or foreign companies. The fact that the Indian industrialists did not evince interest in entering the oil company upto the end of fifties and was not opposed to the entry of foreign companies in this field are important from the point of view of the evolution of public policy of control and regulating of foreign companies which dominated oil industry in India and its subsequent nationalisation. In fact, the nationalisation of oil industry was the only step which was concerned exclusively with foreign interests without affecting the capital of Indian industrialists. In coal, banking, insurance, etc, foreign companies were taken-over but the bigger chunk was that of Indian companies including that of the larger industrial houses. The entry of public sector in oil industry, the terms granted to foreign oil companies, subsequent attempts at regulation and control of oil companies prices and profits, the dilemmas and difficulties which were faced in this process and the zerioing of options to nationalisation are quite closely related to the lack of interest in oil industry shown by Indian capital .

The oil industry was to be initiated in Independent India right from the scratch. At the request of the Indian Government, in 1949 some oil companies from the U.K., and U.S.A. sent a technical committee to study at their own expense. The cost conditions of a refinery project. It presented a picture suggesting a relative cost disadvantage

in setting up refineries in India which could be profitable only on the condition that some extra price over world parity price was alloed to them [57], Since the government did not accept this proposal and the " Abadan crisis " in the meanwhile led the oil companies to rethink their policy of concentrating refinery capacity in the production centres and there was a threat of Iranian Oil Company entering the Indian market, within two years the oil companies came forward to India without requiring special price condition in view of what they earlier considered as adverse cost conditions. [58] Beginning in 1951, the government entered into refinery agreements with Burmah-shell, Standard Vaccum and Caltex, which built their refineries at Bombay and Vizag between 1954 and 1957. [59]

The terms of these agreements are very important. They affected the development of the oil industry, India's balance of payments, prices of oil products in India (and thus the cost-structure of entire Indian Industry), working of industrial controls and regulation and practices regarding repatriation of profits and other charges by foreign companies. Since India's bargaining power was quite weak at the time of the conclusion of these agreements, these terms and conditions necessiated a constant array of policy interventions (preceeded by many official studies and inquiries) by the government.

Some of the important conditions of the refinery

agreements were as follows : The agreements "guarantined the companies from nearly all the regulatory legislation and rules promulgated since Independence.............. the Agreements reserved a maximum of 25 percent for Indian participation, and that in preferred, non-voting shares only. The companies were guaranteed against nationalisation for 25 years from the commencement of operations and 'reasonable compensation' thereafter. Their imports of crude were exempted from customs duty and their machinery imports assigned a special law, $5\frac{1}{2}$ percent advalorem duty. They were specifically exempted from many provisions of the industries (Development and Regulation) Act which had just come on the statute book as the Governments major regulatory device for the private sector, among them that the state might assume control under certain, stated circulstances . Finally, as the Damle Committee revealed at a later date, the agreements were for (an) indefinite duration."[60]

Among some other conditions, the following bring out the special nature of the treatment given to them.[61]

(i) Limitation on the income tax and other taxes leviable, (ii) exemption from sales and turnover taxes, (iii) Freedom to the company to import its own requirements of crude and foreign exchange for this purpose has to be made available by the government of India, with a clause that attempts would be made to purchase the crude oil that might be produced in India. The Government was to provide foreign exchange

for greight, for all operating supplies, equipment and raw materials, engineering services, technical information, royalities, licence fees and the company's Head Office expenses on the refinery account. Similarly foreign exchange was to be provided for remittance of all profits and dividents, for interest on overseas loans and for the cost of construction, equipment, supplies , etc.

It was agreed to allow freedom to the company to price the refinery products at the same level as the landed cost, including landing charges and import duty of the equivalent products. They were also allowed to use tankers of their choice. No refinery was to be set up on more favourable terms, thus guaranteeing their ralitive advantage from compentition. A number of concessions regarding customs duties were also agreed upon.[62]

It is clear that these agreements conferred special advantages on the oil companies, ovdr and above, the prestige flowing from entering into agreements with soverign national governments. It was to be expected that these excessively liberal terms would come in for adverse criticism and the government would be under pressure to make such changes as were permissible under the agreements to protect the national interests. For example, the agreements protected the refineries from nationalisation, but the marketing companies did not enjoy such a protection. In fact, the changing economic situation, particularly with respect to India's

balance of payments position, and the successes achieved in setting up an indigenous crude production and refinery capacity (under public sector and with the assistance of the Soviet Union and Rumania), along with changes in the international business situation with respect to oil production, pricing, etc. provided the basis for the efforts by the government of India to regulate the pricing and profit-repatriation policies. It was the terms and conditions contained in the refinery agreements along with the increased understanding of the minute facetics of the oil trade in its various technical, economic and financial aspects, which determined the specific course adopted by Indian oil policy.

Since the refineries obtained crude from their own sources, mostly from related concerns (which were kept a secret), and transport and market it through related concerns, the pricing of petroleum products became a well-guarded and well-preserved arena for unfettered profit-making. It became a large, growing and unpredictable charge on India's strained foreign exchange resources. Thus oil pricing became a subject of many official studies followed by specific action on the basis of those recommendations. The capacity of India to effectively intervene in matters of price policy was limited by an almost complete absence of information about various elements which enter into price fixation for various petroleum products. There was also a dearth of experienced and knowledgeable personnel who could deal with pricing of

mineral oils. The power flowing from the above two factors was further augmented by virtual non-production of oil within India.

Despite the change in the source of supply from the U.S.A. to the Persian Gulf the change in basing point was applied by the Oil companies to the freight element alone and the Mexican Gulf basing for oil prices in India continued.[63] This import parity pricing, i.e., fixing prices at a level not higher than that at which they could sell or make available for sell equivalent imported products, formed a part of the refinery agreements.[64] Thus it could be seen that the setting up of refineries in the country was not expected to bring in any price advantage to the Indian economy. It is in this sense that the refineries have been referred to as prestige industries.[65] This pricing gave great deal of profits to the oil companies as the cost of crude production in the Persian Gulf region was only a fraction of that in the Mexican Gulf.[66]

With effect from April 1950, the prices of oil products came to be governed by an agreement known as Valued Stock Account (V.S.A.) which was a cost plus profit formula to add various charges to import parity price. This price related to government purchases from Burmah-Shell, but was also supplied to other consumers and by other companies also.[67] Under this agreement there was hardly any public control over the oil prices as the companies' accounts were not available

for any independent scrutiny and the pricing formula was loaded in favour of the companies.[68]

Asserting its right to probe the post -- f.o.b. costs, the government terminated the V.S.A. agreement in May, 1958, and proposed to undertake such an examination. This induced the companies to offer some adhoc reduction in oil prices.[69] The Chief Accounts Officer of the government was asked to study the cost structure but the companies did not agree to bring about reduction in prices as suggested by his report submitted in 1959. Ultimately a new adhoc price was agreed upon for the period 1959 to March 1961.[70]

From 1961 onwards, the price policy, or rather the policy of bringing the prices charged by oil cartels under control, moved in terms of appointment of expert enquiry/study committees to go into the price question and the use of the findings / recommendations for either reducing the oil prices , or for obtaining more information on the aspects kept secret by the companies or for bargaining more discounts in oil prices in keeping with the trends in international markets. The major oil price committees appointed during this period were following[76] :-

(1) The Oil Price Enquiry Committee, July 1961.

(2) The Working Group on Oil Prices, August, 1965

(3) The Oil Prices Committee, October, 1969

(4) The Oil Prices Committee, 1976.

As a result of those interventions , there came about an end of the period of uncontrolled import, distribution and pricing of petroleum products by the oil companies. This period has been discribed as the ten golden years of the international oil firms in India [72]. During the period May 1958 to April 1959, surrender of duty protection and a marginal reduction in prices gave a saving of Rs.80 crores by 1962.[73] Thus the advantage available through lower prices of crude imports as compared to refined products (calculated at Rs.120 crores during 1955 to 1961) was lost throught tie-up of the Indian market to the undisclosed sources of supply and import parity prices. To this must be added the excessive freight charges (e.g. Rs.17 crores as freight for Rs.72 crores worth of imported fuel shipped by the companies during 1954-55) which was inescapable owing to the terms agreed upon with the oil companies.[74]

The capacity of the government to move in the direction of gradually undoing the disadvantage inherent in the refinery agreements and implement the recommendations of various oil price committees to varying extends was greatly influenced by the setting up and growth of national oil exploration, production, refining and marketing industry. Thanks to the all sided support and assistance from the Soviet Union and Rumania, by mid-fifties India took the necessary steps towards setting up public sector oil units, beginning with the Oil and Natural Gas Commission in 1956

and Oil India Ltd in 1959. The statement I at the end of the Chapter presents a bird's eyeview of the growth of Oil industry in India, particularly, of its indigenous, public sector component.

The importance of the setting up of refinery capacities would come out sharply if one also looks at the figures of increase in domestic production of crude and its rising share in national consumption vis-a-vis imports.[75] (See Table I).

The policy of setting up a national oil industry in the public sector had to face the hostility of many interests both at home and abroad.[76] The policy of going in for oil exploration in a big way-an exercise which the oil monoplies had consistently shun-started paying dividends by 1958 and increased the options available to the Indian governments particularly in connection with its capacity to wrest some concessions from the oil companies. This was not a smooth process, because it was hindered by the practice of the companies to keep hidden as company secrets "all that went into the composition of the prices charged " and then, "there were not wanting amongst the political and administrative ranks in India, strong advocate on the companies' behalf."[77]

In this framework the government moved towards securing prices that are in keeping with world market conditions. Following the second price Inquiry Committee Report, the

Government decided to grant a measure of protection to domestic crude producers by pricing indigenious crudes at a level equivalent to that of the landed cost of the crudes imported from the Middle East and on the imported crude a protective import duty of 20 percent ad valorem was levied. The bulk refined products from all refineries were priced at import parity with undiscounted Persian Gulf f.o.b. prices. The foreign companies did not like these decisions which they described as breach of refinery agreements of 1951-53.[78] These decisions did not, however, affect the oil companies adversely, as the government decided to reimburse Burmah-Shell and Esso refineries a sum of about Rs.2 crores annually for the Bombay Municipal Octroi on crude.[79]

The 1967 devaluation significantly added to India's foreign exchange outgo on account of oil. The policy of the government to adjust to the changed situation came in the form of withdrawal of the duty on imported crude, a higher net-back to the companies which was mopped up through additional non-recoverable duties. The basing point for the Persian Gulf was changed from Abadan to Bandar Abbas.[80] As a large number of issues remained unresolved, a fresh (Third) oil Prices Committee was set up in 1968 to go into various issues relating to oil prices.[81]

Highlighting the consequences of the old refinery agreements in terms of excessive profits and "unusual incentives and concessions" to Phillips etc. (oil independents)

in new refinery agreements, the 1968 Oil Price Committee recommended import of crude by a single agency by inviting competitive bids for supply over a specified period of time. It suggested re-negotiations of existing agreements in order to remove impediments in the way of crude oil being imported at world competitive prices. It also recommended the rates of discount which India should obtain from the oil companies on the posted prices of crude. The oil companies seeing perhaps the direction in which the wind was blowing offered some small discounts.[82] The Committee also came out against import pricing and found discounts to be a common practice in the international oil markets. Following these recommendations, new pricing based on the Committee's recommendation were enforced during 1970-74.[83]

Since 1965, the thrust of various enquiries and government policy was to insist on cuts in oil prices. Apart from such findings of the committees that the prices charged by the private oil companies were "neither fully competitive nor most favourable in world markets "[84], the newly acquired dominance in 1972 by the public sector Indian Oil Corporation in the oil market <u>vis-a-vis</u> Burma-Shell (the former's share being 60 percent against the latter's 21 percent) hepled the government to enforce its pricing decisions on the foreign oil companies. Thus the oil companies were put to an extent, on the defensive to give some concessions. In 1964, the companies made a conditional offer to terminate the refinery

agreements and work without special status, though they insisted that their tied-up procurement of crude should be maintained intact, which was the hub of the controversy.[85]

A major development in the world oil situation began in 1973 in the form of a sharp price escalation by OPEC. Initially the price of crude was raised to $ 3.50 barrel and by 1977 it started ranging between $ 11 to $ 14 per barrel.[86] As a result India's import bill rose very sharply. This can be seen from the following data concerning India's import bill of crude and other products :

1972	Rs. 200.9 crores.
1973	Rs. 332.6 crores.
1974	Rs.1109.3 crores.
1975	Rs.1191.5 crores.
1976	Rs.1365.3 crores.
1977	Rs.1531.9 crores.
1978	Rs.1658.6 crores.

Source : Indian Petroleum & P.C.Statistics, op.cit, p. 45.

Such a drastic increase of over 8 times in 1978 over 1972 and about 4 times in 1974 over 1972 came about without a corresponding increase in the physical volume of imports. During the period 1973-74 to 1977-78, all petroleum imports ranged between 15.84 million m.t. and 17.42 million m.t and the highest volume was during 1973-74.[87] Thus, the import of

petroleum products became a major charge on Indian's external resources (being as high as 33.4 % of export earnings in 1974-75 and around 30 percent generally during 1973-78).[88]

It became imperative to drastically control huge out-go of foreign exchange on account of petroleum imports. The impact of oil price shock became still more serious on account of the pricing and profit repatriation policies of the foreign oil companies. Successive studies by various Committees showes that India was made to pay higher prices for crude than was necessary on the basis of world market prices. Some concessions could be wrested by the government from the oil companies in the form of discounts. This was not sufficient to tide over the crisis of balance of payments caused by various rounds of OPEC price escalation during the seventies.

It became essential to make a distinction between oil companies and oil producing countries, so that India could enter into long-term bialetral agreements in order to secure crude or mutual co-operation tie-ups.[89] The oil companies showed a great deal of reluctance to refine the crude procured fro Rupee trede countries,[90] while obtaining as much oil as possible from the Soviet Union in lieu of the oil companies was evidently to India's advantage. Moreover, the increased cost of oil intensified the search for alternative sources of energy, energy saving devices and new kind of less energy intensive products, life-styles and technologies. The cumulative impact of all these efforts, over a long-period of time , was expected to be seen in the form of a slow down of the

growth of demand for petroleum and petro-chemical products. These trends were likely to be interpreted by the companies as contributing to dimming their future prospects in India.

To the extent the options available to the government in controlling the price of imported crude were limited on account of the secrecy on the sources and terms of supply and the limitations arising from the refinery agreements, the government attempted to curtail the role of oil multinationals by following a policy of increasing the market share of public sector oil units, which increased from 0.2 percent (with that of the foreign oil giants at 92.5 percent) in 1960- to 57.3 percent in 1972 (with a fall in the share of the three oil companies to 37.9 percent).[91]

An important complementary instrument used to carry out this policy was the one concerning allocations of foreign exchange to the oil companies for import of crude. As the share of public sector refineries increased and alt ernative sources of supply became available, the government curtailed the allocation of foreign exchange to the oil companies for importing crude. As a result, "while total through-put for all the refineries in the country in the period 1965-70 increased at an annual rate of 13.61 percent, that of the oil companies ' refineries declined at an annual rate of 2.2 percent."[92] This led to a decline of the extent of capacity utilization by the foreign-owned refineries to about 50 perc ent and their tactic of increasing installed capacity beyond approved levels could not prevent the growth of public sector

and joint sector refineries , with oil independents like Phillips, Amoco and National Iranian Oil Company.[93]

With the oil prices reaching dizzy heights, the viability threshold for increasingly costly domestic exploration and production also increased. That is to say, the high oil prices gave a great deal of protection to domestic exploration and production. As the latter processes became stronger both the present role and future prospects of the foreign oil companies in India did not remain promising. With the loss of their monopolistic hold they were not much enthused about the role of getting their profits mainly in the form of refining fees. In any case the companies have made huge profits[94] and had no dearth of profitable investment opportunities in other parts of the world, particularly in view of greatly incre ased interest in the energy sector after 1973.[95] Thus, gradually a stage was being reached when the government was in a position to do without the oil companies and, in fact, preferred to acquire control over them in order to rid themselves of the vexatious issue of constantly mounting new enquiries and introducing new measures for making the oil companies fall in line with their policy. The excess installed capacities with the oil companies must have looked appealling propositions to the government in so far as the future needs of expanding refinery capacities was concerned. The savings in foreign exchange by taking over the oil companies were to be substantial and on many different

accounts. As the external economic constraints were getting tough,[96] the prospect of affecting savings by take-over of oil companies[97] (without causing adverse political and economic repercussions as we see below) must have looked attractive.

Similarly, the growing self-reliance of the country in petroleum industry must have put the foreign companies on the alert. They started, as seen earlier, large-scale repatriation even of reserves, leading to a decline in their capital base, as a prelude to their anticipated departure from the Indian scene.[98]

The Indian market did not hold the same promise for the oil majors which it displayed in the early fifties. Their investments in India had already been amply rewarded . Then, there were better and more exicing prospects for investments elsewhere. In any case, the period of gaurantee against nationalisation was not too far off. By making a voluntary offer of withdrawal, they must have thought it prudent to obtain mutually agreed, negotiated terms of settlement , i.e., a good amount of compensation. As seen earlier, they did succeed in obtaining a good value for the 'sale' of their business in India, though laws were enacted for giving effect to these agreements. Such a mode of acquisition of foreign business by the government is unlikely to cause misgivings either among the 'donor' countries giving external loans or among the foreign private investors. Thus, there appears to be a convergence, based on objective factors, between the decision

of the Indian government to take-over the foreign oil companies refinery and marketing business in the country and the reading of the Indian situation by the foreign companies which indicated to them that folding up their operations in India was a better option then persisting in India which may invite more drastic pricing and foreign exchange allocation policies and, once the umbrella of refinery agreements against nationalisation was withdrawn, face nationalisation on terms determined unilaterally by the government.

Thus, it could be said that while the take-over of the oil industry provided the essential basis of India's energy planning and development,[99] led to a great saving of foreign exchange, it was so arranged that it became a bilateral decision which did not cause heartburns and misgivings to the foreign companies and did not queer the pitch for further flow of foreign capital into India.

At this stage, it may be interesting to compare some aspects of the Indian experience of development of petroleum industry and oil policy, particularly <u>vis-a-vis</u> the foreign oil companies, with those in some other developing countries. All these countries lacked domestic oil industry, technical-know-how, independent access to sources of supply of crude and were generally in a weak bargaining position <u>vis-a-vis</u> the oil majors during the early fifties. In some countries like Pakisatan, (for East Pakistan Refinery) the governmdnt undertook to supply half the crude requirements. In the case of

another refinery (viz. the Karachi Refinery), the government reserved the right to supply one-half of the crude supply at its own option at anytime. Both these arrangements helped in restraining the pricing behaviour of the foreign companies.[100] Many Latin American countries stipulated that they might invite global tenders for the supply of crude and thus by creating competition, they forced the oil majors to quote, at times, even below the Soviet prices. Even Pakistan followed such a course for Pakistan Refineries Ltd.[101]

It is apparent that India failed to evolve any such arrangements, consequently, it lost heavily on crude pricing and was constrained to initiate many steps, including building up domestic refineries and stepping up domestic oil exploration. To a certain extent, the initial adverse conditions attached to setting up refineries in India played a role in initiating the process which culminated in the nationalisation of oil companies. No doubt, the sharp and sustained spurt in oil prices during seventies and the worsening of India's external economic enviornment compulsively added to the need for preventing the wild exploitation of Indian market by the oil majors. Success in building up a robust public sector petroleum industry provided the necessary confidence, and the perception of the need to withdraw from India under biltorally determined conditions facilitated the take-over of this major area of foreign capital and enterprise (even before the expiry of the guarantee against nationalisation)

without adversely affecting India's rating as an investment opportunity for foreign private, official and multilateral capitals.

As usual, such steps, arising from the logic of the underlying economic situation, as nationalisation of the oil companies, are seized by the political authorities to put on an ideological cloak on the nationalisation decision. The Minister for Petroleum andChemicals, moving the Esso (Acquisition of Undertakings in India) Act, 1974, gave vent and the nationalist-ideological posture and referred to the Congress Party election Manifesto to lend support to the move.[102] In more direct political terms, these moves for taking over the foreign oil companies', Indian operations were a kind of not too distant , and not too loud , echoes of the 'radical' phase which began with the bank nationalisation in 1969.

Notes

1. Annual Report, 1973, Hindustan Petrochemicals Corporation Ltd., p.2. Also Raja Kulkarni, M.P., in Lok Sabha Debates, fifth series, Vol.35, Column 273. The Petroleum Ministry constituted a special committee to start negotiations with the foreign oil companies, Esso particularly, on the proposals made to the Government."Soft' deal with oil companies ". Economic & Political Weekly, Dec. 16, 1972.

2. Government of India, Deptt. of Petroldum, Indian Petroleum and Petro-chemicals Statistics, 1980-81. New Delhi. Sept. 1981, p.22.

3. GOI, Ministry of Law, Justice and Company Affairs, Acts of Parliament, 1974 with a Table showing the Effect of Legislation and Index , New Delhi, 1976.

4. GOI, Deptt. of Petroleum, Indian Petroleum and Petro-chemicals Statistics, 1981-82, p.21. In Lube India the GOI already had 50 percent interest.

5. GOI, Ministry of Petroleum, Annual Report, 1975-76, p.27. 51 percent of its shares were from the beginning in 1966 held by the Government with the rest being with a U.S.. Company. associated with Esso. Ibid. p.31.

6. Indian Petroleum and P.C. Statistics, 1981-82, op.cit. pp.42-43

7. Lok Sabha Secretraiat at Lok Sabha Debates (fifth Series) Vol.35 26 Feb.-March 4, 1974. New Delhi. 1974, Col.242.

8. Indian Petroleum Statistics, op.cit, p.33.

9. Eastern Economist, March 15, 1974. Vol. 62. p.589.

10. Lok Sabha Debates, op.cit.Column, 241. As the Minister of Petroleum and Chemicals, Shri. D.K. Barooch, said, "Esso will have 26 percent of the shares, the idea being that, for the time being, for the next few years, we would be continuing to get supplies from them because in the oil world, one does not buy oil from government companies alone.............. we are getting oil from foreign companies at some what cheaper price because they continue to get oil from the oil producing countries at a cheaper rate.." Idem.

11. Ibid. Column. 293, speech of Shri J.Matha Gowder.

12. Indian Petroleum & P.C. Statistics, 1980-81, op.cit.p.23.

13. Govt. of India, Ministry of Petroleum , Annual Report 1972-73 New Delhi, pp.7-8. Also, Annual Report, 1973-74 p.28

14. Khera, S.S., Government in Business, 2nd edition, National Delhi, 1977.

15. Lok Sabha Debates, Fifth Series, Vol.55, Jan. 12-20, 1976, Col. 125

16. Indian Petroleum & P.C. Statistics, 1980-81, op.cit. p.21 and 32.

17. Ibid. Shri. K.D. Malviya, Minister of Petroleum told the Lok Sabha, "Recently an agreement was signed by Government and the principals of Burmah-Shell for the purchase of cent percent of the share capital of Burmah-Shell Refineries

18. Ibid. Colmns. 126-127.

19. Ibid. Coln. 128.

20. Ibid. Coln. 126.

21. Lok Sabha Debates , Sixth Series, Vol. I, 1 to 7 April, 1977. Colmn. 230, Government of India Ministry of Law, Justice and Company Affairs, Acts of Parliament, 1977 with a Table showing the Effect of legislation and an Indix, New Delhi, 1970 . pp. 59-60.

22. Ibid. Colns. 230-231.

23. Indian Petroleum and P.C. Statistics, (SPS) , op.cit. pp. 19-23. As Kidron, M. , describes it, "The Agreement final negotiations for which began on 10 October 1951, were concluded on 30 Nov. with Standard Vaccum Oil Co., on December with Burmah-Shell, and on 28 March 1953 with Caltex. " Kidron, Michael, Foreign Investment in India, Oxford University, Press, London, 1965, p.90 n.

24. Ibid. pp. 32-35.

25. Kidron, op.cit. According to a report in Economic Weekly, (Bombay, November 25, 1961, p.1762), it is mentioned that no nationalisation commitment is for 20 years.

26. Malviya, K.D. Oil and Petro-chemicals, Publications Division, GOI, 1972, p.28 .

27. Lok Sabha Debates, Sixth Series, Vol. I, 1-7 April, 1977 Shri Dinen Bhattacharya made this point. Colmn. 164.

17. ** and the transfer and vesting of Indian assets and liabiliti of Burmah-Shell Oil storage and Distribution Co. of India Ltd- op.cit, col . 126.

28. In fact, H.R. Gokhale, elevated the refinery agreements to the status of international agreements. 'Soft' deal with oil companies " . Economic and Political Weekly, Dec. 16, 1972.

29. See Preamble to various Acts, referred to earlier.

30. Sheth, V.B., M.P., in Lok Sabha Debates, Sixth series, op.cit, Colmn. 174.

31. Lok Sabha Debates Fifth Series, op.cit. speech of Dr. Ranen Sen. Colmn. 250 Shri J. Matha Gowder, M.P., op.cit.Colmn. 295, made a point about gradual repatriation of the assets by the companies.

32. Ibid. Col. 250 Speech by Dr. Ramen Sen.

33. Lok Sabha Debates, Sixth Series, op.cit, Colmn. 181.

34. Lok Sabha Debates, Fifth series op.cit, Coln. 248. Another M.P. Pointed out that Esso's assets were gradually repatriated. In 1969-70 their assets came down by 5-8 percent, in 1970-71, by 3 percent, next year by 6 percent and in 1972-73 by 8 percent. op.cit., colmn. 295.

35. Ibid. Shri. Jyotimay Basu quoted an official admission to this effect. colmn. 248. Net profits, transfers from Reserves and dividends by Burmah-Shell, Caltex and Esso during 1969-70 were stated in a Parliamentary answer, to be as follows.

Year	Net Profit	Transfers from Reserves .	Dividends declared.
1969	515	446	961
1970	546	612	1158

Ibid., Colmn. 249, It was also pointed out that these profits declared were their highest ever during the last 30 or 40 years. Colm. 280

36. Ibid. Colm. 294.

37. Shri. S.M. Banarjee, in Lok Sabha Debates, Fifth Series, op.cit. Colm. 134.

38. Idem.

39. The Assam oil company, the earliest to start operations in India, was taken over with effect from October, 14, 1981. IPS, op.cit., p.4.

40. Khera, S.S., Oil : RichMan : Poor Man, National , Delhi, 1979 p.176. Also, Dasgupta, B. The oil industry in India and some Economic Aspects, Frank cass, London, 1971, Chapter 3.

41. Indian Petroleum and P.C. Statistics, (1981-82), op.cit,

42. Indian Petroleum and P.C. Statistics (IPS : herein after) p.55 and 60. In 1890, the Assam Railways and Trading Company discovered oil in North Assam and in 1899, the Assam Oil Company was formed to take charge of Digboi Oil fields. AOC's production formed out 5 percent of the country's requirements in 1961.

43. Local production of oil ranged from 5 to 10 percent during 1947-50, having 90 percent dependence on imports. Dasgupta, op.cit, p.65 Also, GOI, Ministry of Steel, Mines and Fuels. Report of the oil price enquiry committees, July 1961, New Delhi. p.3. It also lists the other three small companies operating in India.

44 IPS, op.cit, pp.19 and 32-33.

45. Dasgupta, op.cit, pp 54-64.

46. Mehta, B, Oil and self-reliance , Communist Party of India , Publication , New Delhi, 1965, p.3.

47. Khera, op.cit, p.47.

48. Dasgupta, op.cit, p.65.

49. Ibid, pp.53-64.

50. Khera, op.cit. p.51 and 52. W.I. O.D.C's" instiallation were taken over by GOI in 1941 for Defence purposes on a monthly compensation of Rs. 2300 and were returned to it in 1949." Report of the Oil Prices Enquiry Committee, 1961, p.11.

51. Mehta, B., (6) India and the oil prices, Sterling , New Delhi, 1974, p.45.

52. Chaudhry, S. , Nationalisation of oil companies in India, Economic and Political Weekly, 5th March, 1977, Vol.12, p.437. Also, Dasgupta, op.cit, pp.66-67.

53. Dasgupta, op.cit, p.66. and on p.79.

54. SCOPE, Performance of Indian Public Enterprises, New Delhi, Mehta, B. (a) op.cit. pp.3-4.

55. SCOPE, op.cit, pp. 24-25.

56. These were the views of a sub-committee of the Federation of Indian Chambers of Industries in January 1955. These views were expressed in connection with the foreign private capital in India. Hindu, 28, Jan. 1955 as quoted by Kidron, M, in Foreign Investments in India, London, OUP, 1965, p.110.

57. Dasgupta, op.cit, p.66.

58. Ibid. pp.66-68.

59. Burmah shell refinery was planned for 1.5 million tonnes a year, standard vacumm for 0.9 million tonnes and Caltex for about 0.7 million tonnes a year. Khera, op.cit. p.30.

60 Kidron, op.cit, pp. 90-91 (fn).

61. Kidron, op.cit, p.90.fn.

62. Khera, op.cit, pp.30-32.

63. Khera, op.cit, pp.31-32.

64. Ibid, Chapter 8. and Government of India, Ministry of Steel, Mines and Fuel, Report of the oil price enquiry committee, July 1961, p.3

65. Khera, op.cit, p.33.

66. Ibid. p.55.

67. Report of the oil Price Enquiry Committee, op.cit, p.13.

68. Idem.

69. Ibid, p.14.

70. Ibid, pp.14-15.

71. The 1961 committee, report has been referred to above. The other reports were as under :-
a) GOI, Ministry of Petroleum and Chemicals : Report of the Working Group on oil Prices. New Delhi, August, 1965.
b) GOI, Ministry of Petroleum and Chemicals and Mines

and Metals : Report of the oil prices Committee, New Delhi, October 1969.
c) Ministry of Petroleum, Report of the oil prices Committee, New Delhi, November, 1976.

72. Quoted from Frankel, Oil : The facts of Life (1962) by Khera, op.cit, p.61.

73. Mehta, B. (a) op.cit, p.10.

74. Ibid, pp.10-11.

75. "By the middle of the sixties , the consumption had more than doubled but the imports were only about 1.5 million tonns. Subsequently, by 1970, the consumption and domestic production had come to nearly balance each other ". Mehta, B.(6), op.cit., p.47.

76. Among such opponents can be counted the World Bank and FICCI. In its two reports submitted in 1956 and 1958, it opposed the public sector oil programmes. 1956 report said, "It would be a mistake to insist on such a measure of government participation in the exploration and development of oil pressures as to discourage foreign oil ventures". The FICCI echoed the same line and in 1969 (as opposed to its portion in 1955) demanded that private capital jointly with foreign companies. should be allowed entry in this field on a liberal basis". Mehta,B, (b) op.cit., p. 48 . Also, Khera, op.cit p.59 and pp. 179-181 .

77. Ibid, p.59

78. Ibid, p.69.

79. Ibid, pp.68-71 and 77. Also, GOI, Report of the oil prices committee, op.cit Chapter 2,, 00.4-6,.

80. Ibid, pp. 84-87.

81. Report of the oil prices committee, 1969, op.cit , p.1.

82. Ibid. pp. 124-127.

83. Khera, op.cit, pp.102-103. Also , GOI, Ministry of Petroleum, Report of the oil prices Committee, 1974, p.201.

84. Dasgupta, op.cit, pp.186- 187.

85. Mehta, B, (b), op.cit, p.50.

99. nergy planning is something which cannot be left to market forces was recognised even in the conservative circles. Thornton Bradshaw, a prominent U.S., oil executive argued that free markets alone cannot solve the energy problem and the government must set up production goals and fix the price of crude oil. Fortune, February, 1977, pp.3-6.

100. Dasgupta, op.cit, pp.195-196.

101. Ibid. p.196.

102. The Minister said, "it has been the desire of the over-
5 whelming majority of the hon. members of this house that foreign oil companies have outlined their utility and that they should be brought under the control of the Government. The Congress election manifesto also stated that the commanding heights of the economy in the country should be under public control." Also, so far as the oil industry is concerned it is much too important an industry, much too vital for the necessary development of the country, and also much too powerful an instrument in the hands of capitalism that it will be politically wrong and economically also incorrect to leave it in the hands of private companies, much less in the hands of foreign companies." Lok Sabha Debates, Vol XXXV, No.9 1974, cols. 239-240.

Statement I

ESTABLISHMENT, CAPACITY & OWNERSHIP OF REFINERIES IN INDIA

S.No	Year of establishment.	Location of the Refinery	Type of company	Type of company	Present Installed capacity. (million Tonnes)	Source of crude	Nature of initial ownership.
1	2	3	4	5	6	7	8
1.	1955	Digboi (Assam) Inland	Assam Oil Company	Subsidiary of Burmah Oil	0.50	Local	Foreign
2.	1954	Trombay Coastal	BSSO	Subsidiary of Jersey Standard	5.20	Persian Gulf	Ditto
3.	1955	- do-	Burmah Shell	Equal ownership of Burmah & Shell Oil.	3.50	- do-	-do.
4.	1957	Vishakapatnam coastal	Caltex	Subsidiary of Standard of California & Texas Oil	1.60	-do- & Indonesia	- do-
5.	1962	Numati (Gauhati) Inland	Indian Refineries.	Govt. of India (85%) & State Govt. (15%) Public Sector.	1.00	Oil India & ONGC (Assam)	State
6.	1964	Barauni (Bihar) Inland	- do -	- do -	4.50	- do -	- do -
7.	1965	Koyali (Gujarat) Inland	- do -	- do -	4.00	ONGC (Gujarat)	- do -

Contd......../

Statement I Contd.

1	2	3	4	5	6	7	8
8.	1966	Kochin Coastal	State (51%) Phillips (25%) Indian Share holders (24%)	- do - Public Ltd. Co.	3.50	Persian Gulf	Joint Sector Govt., Foreign and Indian Public
9.	1969	Madras Coastal	State (74%) National Iranian Oil & American International Oil Co. (26%)	- do -	2.50	Darious (Iran)	- do -
10.	1971	Haldia Coastal	Indian Refineries	Punjab Sector	2.50	50% from Iran & 50% from open market	State
11.	1973	Mathura	Indian Oil Corporation	- do -	6.00	ONGC and open market import	- do -
12.	1974 Commenced in 1974	Bongaigoan Inland,	IOC & IPCL	- do -	1.00	Oil India & ONGC, Local	- do -
					35.80		

Table I

GROWTH OF INDIAN PETROLEUM INDUSTRY.

India 's Petroleum Industry At-A-Glance (1960-61-1981-82.

Year	Crude oil balance recoverable resources.	Consumption (excl. RBF).	Crude oil production.	IMPORTS Crude oil	IMPORTS POL	Refinery through put.	Refinery through production.	Value of POL imports.	India total exports.	% of POL imports to India export.	CIF unit value of crude imports (Rs/MT)	Central excise & custom Duties on POL (Rs crore)
	....(Million Metric Tonnes)....							Rs Crores..				
1960-61	-	8.02	0.45	5.71	2.17	-	5.75		-	-	-	-
1970-71	128	17.91	6.82	11.68	1.09	18.38	17.11	137	1535	8.9%	91	638
1971-72	114	20.07	7.30	12.95	2.15	20.04	18.64	194	1608	12.1%	114	772
1972-73	125	21.72	7.32	12.08	3.53	19.33	17.83	207	1971	10.5%	121	853
1973-74	127	22.35	7.19	13.87	3.55	20.96	19.50	541	2523	21.4%	300	970
1974-75	125	22.11	7.68	14.02	2.65	21.09	19.60	1112	3329	33.4%	654	1106
1975-76	144	22.45	8.45	13.62	2.22	22.28	20.83	1256	4043	31.1%	772	1155
1976-77	275	24.10	8.90	14.05	2.62	23.00	21.43	1424	5146	27.7%	837	1222
1977-78	303	25.54	10.76	14.51	2.88	24.90	23.22	1552	5404	28.7%	859	1279
1978-79	347	28.24	11.68	14.66	3.88	25.97	24.20	1681	5726	29.4%	854	1480
1979-80	354	29.88	11.77	16.12	4.72	27.47	25.79	3270	6459	50.7%	1357	1620
1980-81	366	30.89	10.51	16.25	7.29	25.84	24.12	5266	6710	78.5%	2061	1512

Source : Except for 1960-61, Indian Petroleum and Petro chemical Statistics, 1981-82, p.44. 1960-61 data partly from GOI, Ministry of Petroleum Report of the Oil Prices Committee, 1976, p.13.4 p.23.